FLASH

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Middle East Conflict Disrupts Global Energy Markets: Prolonged High Natural Gas Prices to Keep Electricity Costs Elevated for at Least Two Years

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KEY SUMMARY

The Middle East conflict has caused liquefied natural gas (LNG) prices to surge sharply and is expected to keep them elevated even if a ceasefire is negotiated, due to damage to gas production supply equivalent to 3% of global supply, which will take 3–5 years to restore.

The conflict in the Middle East caused liquefied natural gas (LNG) prices to rise sharply by more than 91%, from USD 10.7 per million BTU on February 27 (before the outbreak of the war) to USD 20.5 per million BTU during late March to early April, driven by supply concerns as the war disrupted LNG transport through the Strait of Hormuz. Although ceasefire negotiations have taken place, key energy infrastructure has been attacked and suffered permanent damage, particularly Qatar's Ras Laffan gas field, which was hit and forced to cut production by around 12.8 million tons per year, or approximately 17% of the gas production capacity from the Ras Laffan field. The decline in production capacity has reduced LNG supply by the equivalent of 3% of global supply (with Qatar accounting for 19% of global LNG supply), and recovery is expected to take 3–5 years. This is expected to remain a factor keeping LNG prices elevated in the period ahead, as demand-side concerns in Asia and Europe persist over the inability to secure substitute gas supplies in time. However, demand and supply are expected to return to a more balanced level after the next two years, supported by increased production capacity in the United States, which will help partially offset the lost supply from Qatar, while demand is expected to decline as the use of alternative energy increases.

Higher imported natural gas costs are placing upward pressure on electricity generation costs, which are expected to remain elevated at around THB 4.9 per unit by the end of 2026. However, if EGAT debt (the AF charge) is maintained, this would help slow the rise in electricity tariffs, which are therefore expected to increase to around THB 4.0 per unit in 2026–2027.

The conflict in the Middle East is affecting natural gas costs and putting upward pressure on electricity tariffs through two key channels: (1) the increase in the imported liquefied natural gas (LNG) reference price, JKM, which Thailand uses as a benchmark, thereby raising domestic natural gas costs; and (2) disruptions to LNG shipments from Qatar, which have prevented deliveries from being fulfilled under contract, forcing Thailand to procure gas more urgently in the spot market at higher prices.

These two factors are driving up electricity generation costs. Under the baseline scenario, in which shipping through the Strait of Hormuz remains disrupted, energy transport through the Strait of Hormuz and the Yanbu/Fujairah pipeline operates at around 20% of normal volume, and energy infrastructure does not suffer substantially greater damage than at present, LNG prices are expected to remain elevated at USD 22–27 per million BTU through the second quarter of 2026, resulting in an average LNG price in 2026 of USD 17.94 per million BTU.

For Thailand, which relies on imported LNG for around 33% of the gas used in power generation, of which around 7% is sourced from Qatar, procurement pressures and higher LNG prices are pushing up electricity generation costs and could raise electricity tariffs to as high as THB 4.9 per unit by the end of 2026. However, if the government resolves to maintain the Electricity Generating Authority of Thailand's electricity tariff debt burden (AF) at THB 36 billion, this would help slow the acceleration in electricity tariffs, with the average tariff in 2026–2027 expected to remain elevated at around THB 4.0 per unit.

However, if the situation becomes prolonged, the war escalates more broadly, and energy infrastructure suffers severe damage, LNG prices would surge and remain high throughout 2026. In that case, the average imported LNG price could rise to around USD 36.1 per million BTU, which would push electricity tariffs up to around THB 5.7 per unit. If a decision is made to maintain the AF charge, the average electricity tariff in 2026–2027 would be around THB 4.3 per unit.

The government should adopt a systematic approach to managing rising electricity costs, alongside restructuring power generation toward clean energy sources that can provide a stable and continuous electricity supply.

SCB EIC views that the government should urgently implement systematic measures to address high electricity costs, beginning with short-term solutions to immediate problems alongside long-term energy restructuring. In the short term, the government should manage electricity tariffs and the Ft charge flexibly, adjusting them gradually in line with costs. However, the government may also need to consider the debt burden associated with subsidizing electricity tariffs. If the government resolves to freeze electricity tariffs for the remaining periods of 2026 at the current level of THB 3.88 per unit, EGAT's outstanding tariff burden (AF) would rise to around THB 70 billion by year-end (up from THB 35.928 billion in April). This would have negative

implications for EGAT's credibility and creditworthiness, as well as for the fiscal position, as the government may need to provide guarantees or inject financial support if LNG prices remain high for a prolonged period.

In addition, the government should develop war-severity scenarios and communicate energy cost information regularly to the public and business sector. Cost pressures on electricity could also be reduced through emergency energy management by increasing electricity purchases and dispatching non-natural-gas power plants by more than 20% above normal generation levels. Such measures could include purchasing hydropower through electricity imports from Laos and domestic sources, as well as procuring additional power from renewable power plants outside existing power purchase agreements, including biomass, biogas, and other renewable energy plants with spare generation capacity, provided that such increases do not exceed transmission system constraints.

At the same time, in the long term, Thailand should accelerate the expansion of clean energy sources that can serve both as generation sources and as continuous power supply (base load), such as solar and wind combined with energy storage systems, while also studying small modular nuclear reactors (SMRs) and increasing domestic reserves of alternative energy. These measures would help reduce dependence on LNG and strengthen Thailand's energy security on a sustainable basis.

Households and businesses should adapt by focusing on improving electricity-use efficiency and may begin planning for the installation of rooftop solar systems.

The upward trend in electricity tariffs is forcing households and businesses to adapt more quickly. **For households, short-term impacts can be mitigated immediately by changing energy-use behavior to reduce consumption,** such as setting air conditioner temperatures at 26–27 degrees Celsius, using fans together with air conditioners, switching to LED light bulbs, and choosing energy-efficient appliances with Thailand's No. 5 energy-efficiency label, all of which can help reduce electricity bills in a tangible way. **In the longer term, households may consider planning for rooftop solar installation and upgrading homes to improve energy efficiency,** in order to reduce reliance on grid electricity and better cope with the risk of higher electricity costs in the future. **For businesses, in the short term, electricity use should be managed more proactively by avoiding peak-hour consumption** and improving energy efficiency through energy management systems (EMS). **In the longer term, businesses should invest in self-generation, such as rooftop solar, adjust production processes to lower energy use per unit of output, and align these strategies with ESG objectives in order to increase access to green finance.**

How Is the Middle East Conflict Affecting Natural Gas Prices and Thailand's LNG Procurement?

The escalation of the Middle East conflict to the closure of the Strait of Hormuz and attacks on key energy infrastructure has put significant upward pressure on natural gas prices, which have risen by more than 91%. Even if ceasefire negotiations take place and the Strait of Hormuz is reopened, gas prices are expected to remain elevated for at least the next two years.

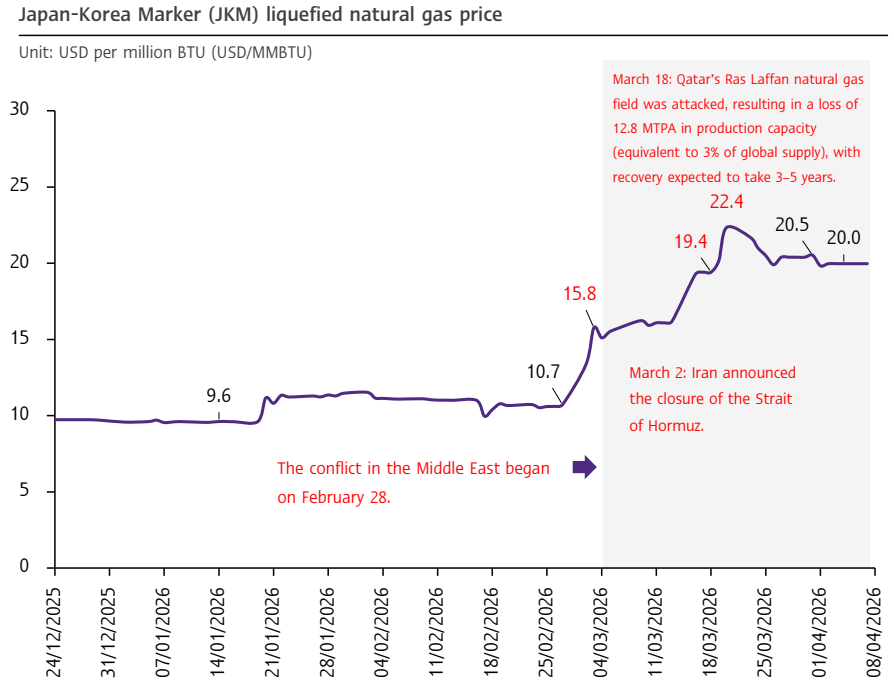
The closure of the Strait of Hormuz is a major pressure factor that would disrupt liquefied natural gas (LNG) transportation. In addition to serving as a route for the shipment of around 20 million barrels of oil per day, or approximately 20% of global oil supply, the Strait of Hormuz is also a key global LNG shipping route, handling around 80 million tons per year, or approximately 19% of global LNG supply. **Rising tensions in the Middle East, which are likely to intensify further, would affect Thailand through two main channels.**

Factor 1: The price of liquefied natural gas (LNG) imported by Thailand under contracts referenced to the Japan-Korea Marker (JKM) rose by more than 91%, from USD 10.7 per million BTU on February 27 (the Friday market close before the weekend) to USD 20.5 per million BTU on March 30, and remained elevated through early April, as shown in Figure 1. Following the outbreak of the war and the closure of the Strait of Hormuz, LNG prices rose to USD 15.8 per million BTU on March 2 (after the closure of the Strait of Hormuz) and continued to increase after the attack on Qatar's Ras Laffan natural gas production facility on March 18. This attack reduced production capacity by around 12.8 million tons per year, or approximately 17% of gas production capacity from the Ras Laffan field, equivalent to a 3% reduction in global supply. Production at the attacked Ras Laffan facility is expected to take 3–5 years to recover to full capacity.

Given the relatively long recovery period for the lost supply, even if ceasefire negotiations take place and the Strait of Hormuz is reopened, LNG supply cannot be restored quickly. As a result, countries that import LNG from Qatar will need to secure replacement supply from other producers, particularly the United States and Australia, which will further keep LNG prices elevated for at least the next two years, amid demand-side concerns in Asia and Europe over the inability to secure substitute gas supplies in time. However, demand

and supply are expected to return to a more balanced level after the next two years, supported by increased production capacity in the United States, which will help partially offset the lost supply from Qatar, while demand is expected to decline as the use of alternative energy increases.

Figure 1: Natural Gas Prices (Japan-Korea Marker, JKM) Surged Following the Middle East Conflict, While Damage to a Key Qatari Gas Field Forced a Reduction in Production Capacity by 12.8 Million Tons per Year for 3–5 Years



Source: SCB EIC analysis based on data from JKM natural gas price data from PLATTS (JKMc).

SCB EIC assesses that liquefied natural gas (LNG) prices will rise in line with the severity of each scenario, depending on the duration of the war, the reduction in energy transportation through the Strait of Hormuz and the Yanbu/Fujairah pipelines, and the extent of damage to energy infrastructure, under three cases (details of the scenarios and LNG prices are presented in Table 1). In summary, across the various scenarios, the severity of the Middle East conflict would have a significant impact on energy transportation through the Strait of Hormuz and alternative routes (Yanbu and Fujairah), and would be a key factor putting upward pressure on LNG prices in 2026.

Under the baseline scenario, in which the war lasts only two months, energy transportation continues at around 20% of normal levels, and there is no additional

damage to infrastructure, LNG prices are expected to remain elevated, resulting in an average imported LNG price for the full year of approximately USD 17.94 per million BTU. **Under the severe scenario**, in which the war lasts four months and energy transportation falls to around 10%, LNG prices would rise markedly, with the average imported price increasing to approximately USD 25.18 per million BTU. Under the most severe scenario, in which the conflict broadens and energy infrastructure suffers extensive damage, energy transportation could fall below 10%, causing LNG prices to surge and remain high throughout 2026, with the average imported LNG price potentially rising to around USD 36.1 per million BTU.

Table 1: Estimated Average Liquefied Natural Gas (JKM) Prices and Average Electricity Tariffs in 2026 under Different Levels of Severity in the Middle East Conflict

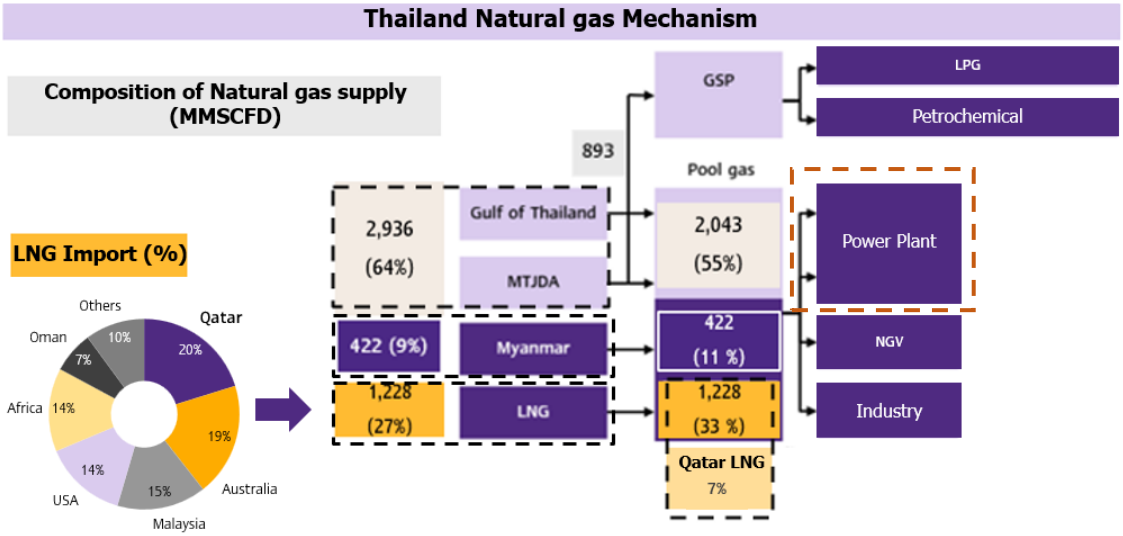
Severity level	Scenario	Estimated average JKM price in 2026 (USD/MMBTU)	JKM price range (USD/MMBTU)
	Before the war and prior to the closure of the Strait of Hormuz	11.3	9.7 – 12.3
Baseline scenario	The war lasts for two months, from March to April. Shipping through the Strait of Hormuz remains disrupted, with energy transport through the Strait of Hormuz and the Yanbu/Fujairah pipelines operating at around 20% of previous volumes, while energy infrastructure does not sustain significantly greater damage than at present.	17.94	14 - 27
Severe scenario	The war lasts for four months, from March to June. The conflict is prolonged, with the Strait of Hormuz remaining closed for an extended period. Energy transport through the Strait of Hormuz and the Yanbu/Fujairah pipelines operates at around 10% of previous volumes, while energy transportation infrastructure and refinery processes sustain significant damage.	25.18	20 - 36
Most severe scenario	The war lasts for more than four months, beginning in March onward. The conflict escalates into a broader war as additional countries become involved. Energy transport through the Strait of Hormuz and the Yanbu/Fujairah pipelines falls to less than 10% of previous volumes, while infrastructure is severely damaged, requiring major repairs or reconstruction and resulting in long-term impacts.	36.10	30 - 45

Source: SCB EIC analysis based on data from the Provincial Electricity Authority, Goldman Sachs, and Bloomberg.

Factor 2: Liquefied natural gas (LNG) from Qatar will not be able to be delivered to Thailand under contract from May onward due to disruptions in the Strait of Hormuz, requiring the government to urgently procure replacement LNG. As a result, Thailand will inevitably need to purchase LNG at the higher JKM spot market price. In 2025, Thailand relied on LNG imports of around 1,228 million standard cubic feet per day (MMSCFD), equivalent to 27% of total domestic natural gas consumption. The remainder came from the Gulf of Thailand and the Malaysia-Thailand Joint Development Area (JDA), at 2,936 MMSCFD (63%), and from Myanmar, at 422 MMSCFD (9%). Of Thailand's LNG imports, around 251 MMSCFD originated from Qatar and was transported through the Strait of Hormuz, accounting for approximately 20% of total LNG imports. However, under Thailand's natural gas management mechanism, part of the gas from the Gulf of Thailand—around 893 MMSCFD—is first allocated to gas separation plants. The remaining natural gas from the Gulf is then combined with supply from other sources into what is referred to as "pool gas" for delivery to natural gas-fired power plants. The remaining gas from the Gulf of Thailand amounts to around 2,043 MMSCFD, accounting for 55% of pool gas, and is combined with gas from Myanmar at 422 MMSCFD (11% of pool gas) and LNG imports of around 1,228 MMSCFD (33% of pool gas). Within this imported LNG component, supply from Qatar accounts for around 7% of pool gas (details shown in Figure 2).

Therefore, LNG from Qatar that cannot be delivered to Thailand under contract has significant implications for gas demand in the power sector, requiring gas shippers in Thailand to urgently procure replacement gas in the spot market, where prices have already risen in line with the war situation, as discussed above.

Figure 2: Composition of Thailand's Domestic Natural Gas Sources and Imported Natural Gas Supply



Source: SCB EIC analysis based on data from the Energy Policy and Planning Office (EPPO), Trade Map, and the Energy Regulatory Commission (ERC).

How Will Higher LNG Prices and the Urgent Procurement of LNG Affect Thailand's Electricity Tariffs?

SCB EIC assesses that the urgent procurement of replacement gas in the spot market at higher LNG prices will raise Thailand's electricity costs and keep them elevated for at least two years. Prior to the war scenario, the average imported LNG (JKM) price in 2026 was estimated at USD 11.3 per million BTU, with electricity tariffs in 2026 projected at around THB 3.9 per unit. However, following the outbreak of the Middle East conflict, under the baseline scenario, the average imported LNG (JKM) price in 2026 is estimated to increase to USD 17.9 per million BTU. This would raise the Electricity Fuel Cost and Power Purchase Cost (EFC), given that natural gas is the main fuel used in electricity generation and accounts for as much as 54% of total energy sources used in power generation. In addition, the accumulated electricity tariff cost burden (Accumulated Factor, or AF) of THB 35.928 billion that must be repaid would also cause the fuel tariff (Ft) to increase accordingly (details of the electricity tariff structure formula are provided in Box 1). These factors would cause electricity tariffs to rise to as high as THB 4.9 per unit by the end of 2026.

However, based on electricity tariff estimates under the assumption that the government asks EGAT to continue carrying the accumulated electricity tariff cost burden (AF) at the existing level of around THB 36 billion through the end of 2026 in order to mitigate the impact of rising electricity tariffs, the average electricity tariff in 2026 is projected to be around THB 4.1 per unit and to remain at around THB 4.0 per unit in 2027 (details are shown in Table 2).

If the war intensifies to a very severe scenario, in which the conflict broadens significantly, energy transport through the Strait of Hormuz and the Yanbu/Fujairah pipelines falls to less than 10%, and energy infrastructure is destroyed, the average imported LNG (JKM) price in 2026 would surge to USD 36.1 per million BTU. This would push electricity tariffs up to THB 5.7 per unit by the end of 2026. However, if the government asks EGAT to continue carrying the AF burden, the average electricity tariff in 2026–2027 would be around THB 4.3 per unit, with the tariff at THB 4.4 per unit in 2026 and THB 4.2 per unit in 2027 (details are shown in Table 2).

Table 2: Average Liquefied Natural Gas (JKM) Prices and Projected Electricity Tariffs for 2026–2030 under Different Levels of Severity in the Middle East Conflict

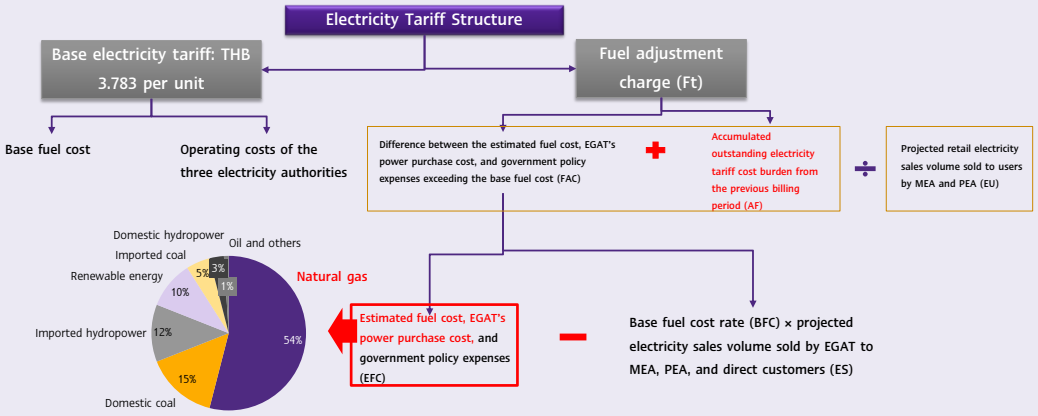
Scenario	Imported liquefied natural gas (JKM) price, 2026–2028 (USD/MMBTU)			Projected electricity tariff under the assumption that AF is fully repaid by 2026 (THB per unit)	Projected electricity tariffs for 2026–2028 under the assumption that AF is maintained at THB 36 billion (THB per unit)		
	2026	2027	2028	2026	2026	2027	2028
Baseline	17.9	10.9	6.9	4.9	4.1	4.0	3.6
Adverse	25.2	14.6	10.9	5.3	4.2	4.1	3.9
Severe	36.1	14.6	10.9	5.7	4.4	4.2	4.0

Note: *The government seeks to maintain electricity tariff stability and avoid a sharp increase by keeping EGAT's fuel cost debt at THB 35.928 billion in Period 2/2026 and at THB 56 billion by the end of Period 3/2026, or by the end of 2026.

Source: SCB EIC analysis based on data from the Provincial Electricity Authority, Goldman Sachs, and Bloomberg.

Box: Electricity Tariff Structure Diagram

The electricity tariff structure consists of two components: (1) the base tariff (THB 3.783 per unit), and (2) the fuel adjustment charge (Ft), which is announced every four months. The Ft is calculated as the difference between the estimated fuel cost, EGAT's power purchase cost, and government policy expenses (FAC), plus the accumulated electricity tariff cost burden (AF), divided by the projected retail sales volume (EU). The FAC depends on the cost of fuels used in electricity generation, of which natural gas accounts for the largest share at around 54%, together with EGAT's power purchase cost and expenses arising from government policy (Estimated Fuel Cost, EFC). This is then offset by the base fuel cost rate (BFC x ES), as illustrated in the electricity tariff structure diagram below.



Source: SCB EIC analysis based on data from the ERC, EPPO, and EGAT.

What actions should the government urgently take to mitigate the impact on households and businesses?

SCB EIC views that the government should implement measures that urgently address immediate short-term problems in order to mitigate the impact on households and businesses, while also improving the energy structure over the long term, as follows:

Short term (immediate actions): The government can manage electricity tariffs and the Ft charge to mitigate the impact by adjusting the Ft gradually and flexibly over time, spreading costs across multiple billing periods so that households and businesses have time to adapt and short-term cost-of-living pressures can be reduced. However, the government may also need to consider the debt burden associated with subsidizing electricity tariffs. If the government wishes to maintain the electricity tariff at THB 3.88 per unit, equal to the tariff during January to April, the accumulated electricity tariff cost

burden (Accumulated Factor, AF) would increase from THB 35.928 billion at the end of April to around THB 41 billion by the end of August (the end of the second electricity tariff period). If LNG prices remain high throughout 2026 and the government continues to cap the electricity tariff at THB 3.88 per unit until year-end, the AF would rise to around THB 70 billion. This would have negative implications for EGAT's credibility and creditworthiness and would increase the long-term debt burden of the state enterprise. A high EGAT debt burden would affect interest payment obligations, reduce net profit, and further increase financing costs. In addition, the debt burden would also affect the country's fiscal position, as the government may need to provide additional debt guarantees or inject financial support if the situation becomes severe and LNG prices remain elevated for a prolonged period. Nevertheless, the government should develop scenarios for the severity and duration of the war in order to plan electricity tariff adjustments appropriately and communicate electricity cost conditions regularly to the public and business sector.

Moreover, **the government can partially reduce pressure on electricity costs through emergency energy cost management by increasing electricity purchases and dispatching non-natural-gas power plants by more than 20% above normal generation levels. Such measures could include purchasing hydropower through electricity imports from Laos and from domestic sources, as well as increasing purchases from renewable power plants outside existing power purchase agreements, including biomass, biogas, and other renewable energy plants with spare generation capacity, provided that such increases do not exceed transmission system constraints. These measures would help reduce the share of electricity costs arising from higher natural gas prices.**

Long term: The government should adopt a strategic approach to electricity fuel management by accelerating the expansion of clean energy as part of an energy structure capable of providing a continuous power supply (base load), such as solar and wind power plants combined with 24-hour energy storage systems, as seen in Australia, where energy storage systems are used to enable solar farms to supply electricity continuously. Moreover, the government should increase electricity generation from biomass and biogas power plants that rely more heavily on domestic feedstock, while also improving the management of natural gas reserves and other alternative energy sources, including biomass, biogas, and green hydrogen, in order to reduce reliance

on highly volatile natural gas and enhance flexibility in fuel procurement. This should also include consideration of newer nuclear power technologies that are safer and more suitable to Thailand's current context, such as small modular reactors (SMRs), which require limited installation space, have a modular design, and provide generating capacity of 10–300 MW per module. In the event of operational failure or an accident, such systems can automatically shut down without requiring external cooling water and have relatively low environmental and social impacts.

How should households and businesses respond?

1. **Households can adapt immediately and prepare over the longer term. For example:**

   Short term (immediate actions): Adjust air conditioner usage behavior by setting the temperature at 26–27°C and using a fan together with the air conditioner to reduce the load on the compressor. This could reduce electricity consumption by around 5–10% compared with normal usage. In addition, households can switch to LED lighting and use energy-efficient electrical appliances with Thailand's No. 5 energy-saving label.

   Long term: Households should plan to install rooftop solar systems to reduce reliance on grid electricity, which is likely to become more expensive in the future. The current period is an appropriate time to consider installation, as the government has introduced income tax exemption measures for expenses related to rooftop solar installation. Moreover, installing rooftop solar and using it during a period of rising electricity tariffs would also allow households to recover their investment more quickly. In addition, homes can be upgraded to improve energy efficiency, such as by adding thermal insulation, applying heat-reducing window film, and using heat-reflective roofing materials.

2. **Businesses can adapt immediately and prepare over the longer term. For example:**

   Short term: Manage electricity use more proactively by adjusting production schedules to avoid peak periods. In addition, improving energy efficiency is becoming an increasingly common option, particularly through Energy Management and Monitoring systems, including the installation of energy monitoring systems (Smart Meters / EMS), in order to reduce unnecessary and inefficient energy consumption.

Long term: Invest in self-generation through rooftop solar systems and adjust business structures toward more efficient energy use. This represents a business adaptation strategy that is linked to ESG and enhances access to green finance. Examples include upgrading machinery to higher-efficiency equipment so that production processes consume less energy per unit of output. In addition, businesses with available factory rooftop space and surrounding land can generate electricity for their own use without making upfront capital investments by entering into a Power Purchase Agreement (PPA) with rooftop solar providers, thereby reducing electricity costs over the long term.

In summary, the conflict in the Middle East has had a significant impact on natural gas prices, particularly as transportation through the Strait of Hormuz, a key global LNG shipping route, has been disrupted. As a result, the price of liquefied natural gas (LNG) referenced to the Japan-Korea Marker (JKM) has risen rapidly. This supply uncertainty has also prevented Qatar from delivering LNG to Thailand under contract, forcing Thailand, which relies on imported LNG for electricity generation, to procure replacement LNG at higher market prices. As a result, the country's electricity costs are expected to remain elevated, pushing electricity tariffs to around THB 4.0 per unit and as high as THB 4.4 per unit if the conflict becomes prolonged and more severe, thereby affecting household living costs and business costs.

Accordingly, the government must urgently step in to mitigate the impact of rising electricity tariffs in the short term, while also restructuring the energy sector by increasing clean energy, biomass, and small modular nuclear reactors (SMRs) in order to reduce dependence on LNG in the future. At the same time, households can respond in the short term by conserving energy, while businesses should improve electricity efficiency, reduce electricity use during peak periods, adopt energy monitoring systems, and invest in self-generation through rooftop solar systems over the long term.

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