

PRESS RELEASE

South Korea is on the verge of an energy crisis due to the state utility's record losses

South Korea's national power company's financial crisis is directly linked to the firm's overreliance on fossil fuels

June 3, 2022 – South Korea is on the verge of an energy crisis, Solutions for Our Climate (SFOC) said today in its [Fossil Fuels, The Main Culprit Behind KEPCO's Deficit](#) issue brief. After reporting its [highest operating loss of 7.8 trillion won](#) (USD \$6.1 billion) in the first quarter of this year, state-run Korea Electric Power Corp. (KEPCO) is hoping to delay payment to power plants for electricity. KEPCO's growing deficit is raising alarms that the state utility will fall into capital impairment within three years.

In the 4-page report, SFOC raises red flags amid KEPCO's ongoing financial losses, interconnected to the firm's ongoing heavy dependence to domestic fossil fuel plants and developing market fossil fuel projects. The national power company's financial situation poses a greater fiduciary question not only for shareholders but also the South Korean public—as the government may be asked to untangle the firm's finances and bail out the company again.

“If the government decides to subsidize KEPCO through taxpayer's money, KEPCO's economic burden primarily caused by the excessive usage of fossil fuels will be transferred to every household,” said **Gahee Han, researcher at SFOC**. “90% of the increase in electricity costs in Q1 of 2022 is attributed to the coal and LNG fuel spike.”

With the state utility's business strategy focused on fossil fuels, KEPCO's performance has been determined by volatile market conditions with fossil fuels increasing the cost of electricity production. Over the last five years, the national power company registered deficits, with the exception of 2020, when the firm posted an operating profit of 4.8 trillion won on the back of then-low oil prices. KEPCO lost 1.2 trillion won in 2018, 2.3 trillion in 2019, and in 2021, posted its [largest deficit on yearly performance with an operating loss of 5.8 trillion won](#), mainly due to high import prices of international crude. This was the largest loss since the state utility posted a deficit of 2.7 trillion won in 2008, when the global financial crisis rocked the nation and the government had to bail out the power utility company. In addition, current market forecasts predict the national power company will see an [all-time high operating loss of 17 trillion won this year](#), with other projections expecting the company to suffer an [operating loss of as much as 30 trillion won](#).

“KEPCO has become overexposed to fossil fuels,” **Han of SFOC** said. “Instead of reading trends and shifting to renewable energy options that are now re-shaping global power markets, South Korea has continued to purchase coal and LNG, which have high costs and are over compensated.”

The [issue brief](#) adds that KEPCO is struggling financially because of its structurally unprofitable model while continuing to invest in stranded assets at home and abroad. The power company is not keeping pace with investments required to develop distinctive clean technology solutions that fast-growing global markets will reward. The utility firm had to leave over 800 billion won stranded in the [Bylong Coal Mine](#) in Australia as well as deal with miscalculations in coal phase-outs seen in overseas coal projects in Indonesia and Vietnam.

This April, [KEPCO asked for an extensive on payment](#) to power plants for electricity in South Korea. Though there were lingering fears that KEPCO's credit rating would weaken, the [government amended regulations to give the power company more time to pay](#) for electricity it purchased, as the state utility would have been considered in default otherwise. As a fix to the mounting financial problems, the national power company announced in May that the firm will [sell all overseas coal power plants](#). However, the returns of the sale would not be seen as material outlook for the company because KEPCO's core domestic assets are valued at 114 trillion won, or 15 times the value of its overseas investment portfolio.

The state utility is expected to secure over 1.9 trillion won through the sale of all overseas coal plants and bring in another [6 trillion won](#) through a financial restructuring through selling off assets and reorganizing its investment portfolio with an additional 700 billion won from selling off real estate owned by its affiliates. Despite its efforts, KEPCO's strategy will still fall short of the predicted 17-30 trillion won deficit it will incur in 2022.

“As long as KEPCO actively uses coal and LNG to power its plants, the South Korean power market will remain vulnerable to global fossil fuel prices,” said **SFOC's Gahee Han**. “Considering the global trend of rising carbon tax on fossil fuels and environmental costs, KEPCO's situation will worsen if the company does not commit to a complete overhaul.”

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Solutions for Our Climate (SFOC) is a South Korea-based group that advocates for stronger climate change policies and transition towards a fossil-free society. SFOC is led by legal, economic, financial, and environmental experts with experience in energy and climate policy and works closely with policymakers.

For media inquiries, please reach out to:

Joseph Kim, Communications Officer, Solutions for Our Climate,
joseph.kim@forourclimate.org