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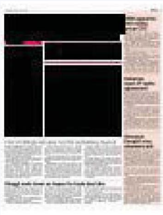

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Federal Court rules against TNB in tax appeal

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Power company says it is assessing financial impact

UTILITIES

KUALA LUMPUR: The Federal Court has allowed the Inland Revenue Board's (IRB) appeal to reinstate an additional tax assessment of RM1.25bil against Tenaga Nasional Bhd (TNB) for the 2018 assessment year, following a penalty remission from the original RM1.8bil notice.

In a filing with Bursa Malaysia, the utility giant said the Federal Court allowed the IRB's appeal against earlier decisions by the High Court and Court of Appeal, which had favoured TNB's judicial review to set aside the tax notice.

TNB said it is currently assessing the full impact of the decision.

The Federal Court held that as a utility company, the applicable schedule is 7B of the Income Tax Act 1967, namely investment allowance, instead of 7A for reinvestment allowance (RA).

Accordingly, in light of the Federal Court's decision, TNB will be pursuing to claim for the Investment Allowance under Schedule 7B.

"This decision has a potential negative financial impact on the earnings and net assets of the company and group for the financial year ending Dec 31, 2025. However, the decision is not expected to have any operational impact on the company and group," TNB said.

The case originated when, on July 3, 2020, the IRB through a letter informed TNB that the RA that it had claimed for the year of assessment 2018 was disallowed and then issued a notice of additional assessment on July 7, 2020, for the amount of RM1.812bil.

Subsequently, TNB filed a judicial review that same year over the imposition of the RM1.812bil as an additional assessment to be paid by the national utility company.

However, the sum was reduced to RM1.25bil.

Meanwhile, the latest electricity tariff restructuring that took effect this month is expected to support sector-wide stability and reforms.

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>
> Tenaga Nasional Bhd

Analysts said the changes are anticipated to offer more equitable cost distribution across consumer segments, ensuring sustainable funding for system upkeep and future expansion.

Following a TNB briefing on Tuesday to provide greater clarity on the new tariff schedule, CIMB Research said: "Regardless of tariff changes, the Incentive-Based Regulation (IBR) framework provides regulatory adjustments such that TNB ultimately earns the regulatory rate of return (7.3%) on the regulated asset base (RAB)."

The research firm said under Regulatory Period 4 (RP4), the RAB is projected to grow on the back of 12% higher base capital expenditure (capex) of RM26.6bil and contingent capex of RM16.3bil.

Hong Leong Investment Bank Research (HLIB Research) said the revised structure introduces more granular billing and fairer allocation of fixed costs through the increased use of demand charges and the reduction in energy charges.

"This ensures that all customers contribute fairly to fixed costs – primarily TNB's infrastructure and network investments – thus reducing under-recovery of these costs," the research house said.

It added that the new five-part bill breakdown will enhance transparency.

Notably, the Automatic Fuel Adjustment (AFA) mechanism has been introduced to replace the previous Imbalance Cost Pass-Through (ICPT), starting at a neutral rate of zero this month.

CIMB Research explained that if there are any going forward, that is, when fuel costs exceed/fall below RP4 projections, it will be charged at the same rate for all residential and non-residential users (except for households consuming 600 kilowatt-hours or less, which are exempted).

According to HLIB Research, the implementation of the AFA mechanism will enhance TNB's cash flow stability and strengthen the balance sheet by enabling more timely and accurate cost recovery.

Similarly, MIDF Research views the reform positively, stating that "the latest tariff framework under RP4 provides greater stability and transparency, especially through the dynamic AFA that removes the lag in fuel-cost recovery thus, protecting TNB from fuel price swings."

It also expects robust electricity demand growth of between 3.5% and 4.5% this year, with peak demand already hitting a record 20.75GW in May.

Residential consumers are likely to see flat to lower bills – by up to 15% – while users that shift usage to off-peak periods under the Time-of-Use tariff could enjoy further savings.

About 71% of TNB's medium-voltage customers may benefit from bill reductions of up to 16%, CIMB Research noted.

However, data centres will face steeper electricity bills due to their reclassification under the new ultra-high voltage category.

"Despite their high load factors, data centres will see a 10% to 15% increase in electricity costs, where the peak and off-peak energy charges are 24% to 26% higher than the new high voltage tariffs," said CIMB Research.