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## Stepping on the gas

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NATURAL gas has already been in focus in the energy transition, serving as a vital "bridge fuel" to replacing fossil fuels.

Now, though, it has become an even hotter topic in Malaysia's energy sector liberalisation.

The country needs to come up with steps to determine how it is best sourced, and how it will be priced and sold to the domestic market.

Recently, the Energy Commission (EC) issued a Request for Proposal to appoint a consultant to develop a study on "Competitive Gas Market Structure for Peninsular Malaysia".

Also, by next year, the long-standing arrangement, under which Petroliaam Nasional Bhd (PETRONAS) supplies Peninsular Malaysia's gas-fired power sector with relatively discounted gas, comes to an end.

Other factors are at play: domestic gas fields are maturing, leading to a rise in liquefied natural gas (LNG) imports. We need this simply because there is a growing demand from power and industrial sectors. Then, there is the emergence of data-centre demand and energy-transition pressures.

All of these have to be coupled with the need to maintain affordability, while ensuring supply security.

One important adjustment that has to happen is a change in how LNG is sourced from other markets. That task is now in the hands of PETRONAS, the main supplier of gas into the country.

Market demands, however, necessitate a liberalisation of this structure. Today, Malaysia's gas



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market, especially for the all-important power sector, remains heavily influenced by a central aggregation and supply structure.

A competitive market structure should allow qualified players to do a few things: import LNG directly, procure gas from different sources and negotiate contracts independently.

It should also allow them to market gas to eligible consumers, and compete on factors such as pricing, reliability and value-added services.

The idea is for industrial consumers and power producers to have a choice of gas suppliers, rather than relying on a single dominant entity.

This will also lead to market-driven pricing.

Historically, Malaysia's domestic gas pricing framework included varying degrees of regulation and government intervention to support affordability and industrial development.

■ **A competitive market structure should allow players to import LNG directly and from different sources**

■ **Gas hubs create transparent pricing and make it easier to manage risk**

■ **Competition can also expose market to price volatility and supply disruptions**

In 2021, the government introduced the Malaysia Reference Price for industrial gas users on a willing-buyer, willing-seller basis.

While the non-power sector has transitioned to this pricing mechanism, the power sector remains partially regulated until 2027.

Existing long-term gas supply agreements between PETRONAS, Tenaga Nasional Bhd and independent power producers have reduced the incentive for these buyers to seek alternative suppliers.

As a result, the development of a more competitive gas market has been constrained.

The challenge for policymakers will be balancing things like affordability, competition, investor confidence and supply security.

Malaysia's gas market structure needs to head towards having trading and market hubs.

These hubs, that exist in places like Singapore and Europe, create transparent pricing, improve security of supply, and make it easier for buyers and sellers to manage risk.

A gas hub is a marketplace where buyers and sellers can trade gas. Without these hubs, gas prices are typically indexed to oil.

With the hubs, gas prices are determined by actual supply and demand, buyers and sellers can see accepted market pricing.

The hubs also enable multiple suppliers to compete, and utilities such as power plants to buy from different sources.

In the end, it will lead to a reduced dependence on a single producer. This generally improves efficiency and can reduce costs over the long run.

Furthermore, if one supplier experiences disruptions, buyers can often source gas from others through the hub.

A competitive market requires even stronger and more sophisticated regulation.

This is because liberalised gas markets often require clearer tariff methodologies, transparent capacity allocation, anti-discrimination rules and some form of market surveillance as well as dispute resolution systems.

The EC's role would, therefore, become even more important. One positive spin-off from all of

this, is that it will increase private sector participation and investment. A competitive structure will attract LNG suppliers, infrastructure investors, traders and more downstream industrial investors.

These investors tend to favour markets with transparent rules, predictable access, commercially viable pricing and regulatory certainty.

Notably, the liberalisation efforts will align Malaysia with its energy transition. Gas markets globally are evolving under decarbonisation pressures.

With natural gas increasingly being viewed as a crucial transition fuel, a more flexible and competitive market structure may be seen as necessary to support the broader energy transition.

But competition introduces risks as well. While competition can improve efficiency and innovation, it can also expose the market to price volatility, supply disruptions, under-investment risks and stranded asset concerns (where investments lose their economic value before the end of their expected life because they can no longer earn enough revenue or are underutilised).

This is particularly sensitive for Malaysia because gas remains central to electricity generation and industrial activity.

Hence, the phrase "competitive gas market structure" should not be interpreted as pure deregulation. It should lead to a carefully managed framework where infrastructure remains regulated or partially regulated, strategic oversight is preserved, competition is introduced progressively and market forces play a larger role in pricing and supply decisions.

As Malaysia seeks to evolve from a largely centralised gas system into a more open one, the key focus should not merely be on competition but also on structure.

This is where the gas sector's architecture will need to strike a good balance of maintaining energy security, attracting investments, improving market efficiency, enabling the energy transition and ultimately ensuring the long-term sustainability of the gas sector.

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