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Tough energy-pricing calls ahead, but transition must be speeded up, says deputy minister

The Edge, Malaysia



Tough energy-pricing calls ahead, but transition must be speeded up, says deputy minister

BY **DANIAL DZULKIFLY**

Malaysia needs to accelerate its energy transition as rising fuel subsidy costs, growing electricity demand and declining domestic gas reserves have left the economy exposed to mounting energy security and competitiveness risks, said Deputy Economy Minister Datuk Seri Mohd Shahar Abdullah.

He said the money spent shielding consumers from global fuel price shocks came at the expense of other public spending, leaving the government with difficult decisions over energy pricing.

"We must recognise that every ringgit allocated to cushioning external fuel price shocks is a ringgit diverted directly away from public healthcare, education and essential national infrastructure," he said in his closing address at *The Edge*-HSBC Renewable Energy Forum 2026, themed "The Energy Transition Accelerated", held at the KLGCC Convention Centre in Kuala Lumpur on Oct 26.

Prime Minister Datuk Seri Anwar Ibrahim said on Oct 24 that the annual fuel subsidy bill could reach RM42 billion to RM45 billion if global oil prices remained high, nearly three times the RM15 billion allocated for fuel subsidies in Budget 2026.

Anwar added that the government will keep RON95 petrol at RM1.99 a litre even if crude oil prices reach US$120 to US$130 a barrel, absorbing the higher cost rather than passing it on to consumers at the pump.

Mohd Shahar's speech came as fuel subsidies and electricity tariffs were up for review, while the gas supply agreements for power plants in Peninsular Malaysia were due to expire at end-2027.

The deputy minister did not specify which pricing decisions would prove most difficult, but said the direction of the country's energy transition was settled.

"While certain policy decisions, particularly regarding energy pricing, will present challenges, our strategic direction is fixed, and we must accelerate our pace."

Mohd Shahar stressed that the energy transition was not simply about cutting emissions or changing the country's energy mix, but was also an economic strategy to attract investment, create higher-value jobs and help Malaysian businesses capture more of the value generated by new energy technologies.

He added that transition to renewables is Malaysia's third major shift in energy policy, following a post-independence phase that laid the foundations for national development and a second phase that supported industrialisation as the economy moved into manufacturing and services.

"Malaysia's third energy pivot can therefore be summarised as follows: We are moving from using energy to enable growth, towards using the energy transition to create new sources of growth," he said.

Under the National Energy Policy 2022-2040 and the National Energy Transition Roadmap (NETR), Mohd Shahar said, the transition was meant to generate economic activity across sectors ranging from engineering and finance to digital systems and professional services.

The NETR projected that the transition could add up to RM220 billion to gross domestic product and create about 310,000 green jobs by 2050, he said.

> **"While certain policy decisions, particularly regarding energy pricing, will present challenges,** our strategic direction is fixed, and we must accelerate our pace."
> ***Mohd Shahar***

Investment was already being committed, he added, pointing to this year's Feed-in Tariff round, which awarded 42 projects expected to attract about RM4.3 billion, and the RM15 billion plan by Tenaga Nasional Bhd to modernise the national grid.

The economic benefits would depend, however, on how much of that investment translated into domestic capabilities and jobs, said Mohd Shahar.

"Installing advanced technology does not automatically create domestic economic value. Capturing that value requires deliberate participation by Malaysian companies, workers, researchers and institutions."

He said renewable energy was becoming increasingly important in attracting foreign investment, particularly from manufacturers, semiconductor companies and data centre operators that wanted reliable, competitively priced clean electricity.

"If Malaysia delivers reliable, competitively priced renewable energy, we secure high-value capital. If we hesitate, capital will flow to competing economies in Asean," he said.

Data centres alone showed how much power that investment would need. As at the first

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'Delaying RE transition could cost Malaysian businesses more'

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quarter of 2026, Tenaga was supplying 36 operating data centres with about 4.5GW of planned capacity and had met the power requirements of another 23 under construction, with a combined maximum demand of 3.8GW, the Ministry of Energy Transition and Water Transformation said in a parliamentary reply in July.

The ministry also projected that peak electricity demand would rise from 21.3GW in 2026 to 33.5GW by 2035, by which time data centres could account for as much as 31% of electricity consumption, compared with 7% in 2026.

From LNG exporter to importer?

The need to move faster also came down to energy security, Mohd Shahar said, noting the risks of imported fuel against the stability of homegrown renewable energy.

"Reliance on fossil fuels leaves our economy continuously exposed to global market shockwaves, shipping disruptions and volatile import bills. In contrast, domestic renewable resources like sunlight carry zero geopolitical risk."

Fossil fuels still dominated the power mix, with coal and natural gas accounting for 58.5% and 33.5% respectively of Peninsular Malaysia's electricity generation in 2025, according to the Energy Commission's Annual Regulatory Review 2026.

Much of that fuel came from abroad, with the commission's latest estimates showing that Malaysia imported about 20% of its natural gas and almost all the coal it burned for power.

Those costs fed through to electricity bills, since the Automatic Fuel Adjustment mechanism, introduced in the July 2025 tariff revision, adjusted the generation charge each month in line with fuel prices.

Gas and coal costs in the second and third quarters of this year had risen well above baseline prices, Deputy Prime Minister Datuk Seri Fadillah Yusof, who is also energy transition and water transformation minister, told the Dewan Rakyat on Oct 15.

To protect households from the increases, the government extended bill protection to about eight million domestic consumers, or 90% of those in Peninsular Malaysia, until the end of the year.

Beyond the immediate cost of imported fuel, Mohd Shahar warned that Malaysia could become a net importer of liquefied natural gas (LNG) within the next two decades if current trends continued without a stronger expansion of renewable energy.

Malaysia had long been a major LNG exporter, he said, but ageing oil and gas fields and continued reliance on fossil fuels could erode that position, making the expansion of domestic clean energy capacity essential to safeguarding national energy sovereignty, or the country's ability to meet its own energy needs.

Signs of declining domestic supply had been building for some time. In April 2025, then economy minister Rafizi Ramli said gas reserves were shrinking at a compound annual rate of 7% in Peninsular Malaysia and 4% in Sabah, leaving Sarawak, which held 59% of the country's reserves, as the only state with stable supply.

Petroliam Nasional Bhd (PETRONAS) had since moved to secure additional supplies through long-term import contracts, signing a 20-year agreement with QatarEnergy for two million tonnes of LNG a year and a 15-year deal with Woodside Energy for one million tonnes a year, with deliveries under both due to begin in 2028, once the current gas agreements for the peninsula's power plants had lapsed.

For Malaysian businesses, the transition was also becoming a question of competitiveness as international buyers paid closer attention to the emissions behind the goods they bought, said Mohd Shahar.

He warned that sustainability had too often been treated as a compliance requirement or an overhead cost rather than an investment in the future.



> **"Reliance on fossil fuels leaves our economy continuously exposed** to global market shockwaves, shipping disruptions and volatile import bills. In contrast, domestic renewable resources like sunlight carry zero geopolitical risk."
>
> ***Mohd Shahar***

"Let me be unequivocal; renewable energy is no longer a cost item. It is a vital economic asset, and every year of delay compounds the ultimate cost of transition."

He said delaying the transition could expose companies to financial risks, particularly those investing in long-lived infrastructure such as power plants and pipelines, which could lose value before their loans were paid off if they remained dependent on high-carbon fuels.

"Procrastination does not yield savings; it merely defers costs and compounds them."

Mohd Shahar cited the European Union's Carbon Border Adjustment Mechanism (CBAM), which charges importers for the emissions associated with goods such as steel, as an example of how climate policy was shaping international trade.

The Malaysian Steel Institute estimated that compliance with CBAM could cost Malaysia's iron and steel industry RM970.7 million in 2026, with the bill expected to rise in subsequent years.

A domestic carbon tax could have kept some of that money in Malaysia, since carbon prices already paid at home can be deducted under CBAM rules, but the levy on the iron, steel and energy sectors, first announced in Budget 2025, had been put on hold.

Natural Resources and Environmental Sustainability Minister Datuk Seri Arthur Joseph Kurup said on Oct 5 that the government had deferred the tax after geopolitical developments had made energy prices volatile, and that it would not be introduced this year. The government wants the National Climate Change Bill (RUUPIN) to be passed into law so it can set emission ceilings.

Beyond regulation, delivering the transition would require substantial capital. Mohd Shahar puts the country's needs at an estimated RM637 billion in public and private investment to meet its renewable energy goals by 2050.

The government could not shoulder that cost alone, he said, as he turned to the bankers in the room.

"To the leaders of HSBC, our institutional investors, and banking executives in this room, the government is building the policy framework and de-risking early capital, but we rely on your balance sheets to deploy long-term, bankable financing at scale."

Under the NETR, the government aimed to raise renewable energy's share of installed capacity to 35% by 2030 and 70% by 2050, and Mohd Shahar said the share had reached nearly 32%.

That figure measured installed capacity rather than the electricity actually generated, which explained how coal and gas could still produce more than nine in every 10 units of Peninsular Malaysia's power.

Data from the Sustainable Energy Development Authority showed that solar accounted for half of the country's renewable energy capacity, while large hydro contributed another 40%.

On the policy front, Mohd Shahar said Budget 2027 included plans for a RM1.5 billion centralised solar park for government buildings and an extension of investment tax allowances of up to 100% for green technology until 2030.

He also cited UEM Lestra's RM1 billion investment in energy projects, including energy storage systems at Kuala Lumpur International Airport and a 1GW hybrid renewable energy project in Johor, and the RM1 billion Climate Fund set up by Kumpulan Wang Persaraan (Diperbadankan) (KWAP) for renewable energy and decarbonisation projects.

Households were part of the transition, too, Mohd Shahar said, through the NETR-aligned Nur Madani scheme, which offered rebates of RM200 for energy-efficient appliances such as air conditioners and refrigerators.

Natural gas would remain an important transitional fuel for years to come helping stabilise the grid and maintain a steady power supply as Malaysia phased out coal.

The challenge was to expand renewable energy while keeping electricity reliable and competitively priced for businesses and consumers, Mohd Shahar said.

He added that the forum's discussions on grid modernisation, community engagement and blended finance, which combines public money with private capital to reduce investment risk, could help shape the rollout of the 13th Malaysia Plan (2026-2030). He closed with a warning that the transition had become a race.

"The global energy transition is no longer a future hypothesis. It is an active economic race. Economies that transition early will capture the capital, the technology and the high-value jobs."

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