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Budget, power supply: Sabah's options

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On 13 September 2025, a transmission tower collapsed at Kampung Sarapung in Penampang due to soil erosion caused by heavy rain. This was a high voltage transmission line that connected Sabah's west coast power supply to the east coast.

Consequently, power went down in Sandakan, Lahad Datu, Kunak, Semporna, Beluran and Kinaabatangan. Press reports at the time said the Sabah Electricity Sdn Bhd ('SESB') estimated that over 1 million Sabahans were affected by the loss of power.

On 9 October 2026, the Prime Minister tabled Budget 2027 and announced RM18.7 billion in federal grants and allocations for Sabah. This article examines what Budget 2027 provides for Sabah's power needs, what it leaves out and where funds would be better spent.

Additionally, this article will argue that the Sabah Government, under Chief Minister Datuk Seri Hajiji Noh, must play its part and address those aspects of Sabah's power needs that the federal government has left unaddressed.

Budgetary Provisions for Power in Sabah - One Extension Cord, Among Others

There are three points that were raised in the Budget that concern electricity supply and generation in Sabah.

First, the federal government will allocate RM204 million towards the installation of Statom systems.

In layman's terms, a Statom system is a technology designed to stabilise and better regulate voltage within the main electricity grid. Presumably, this would reduce instances of blackouts caused by sudden surges and overloads.

Second, RM600 million has been earmarked to subsidise the costs of electricity supply (fuel and tariff subsidies).

And third, Prime Minister Anwar Ibrahim affirmed that the Southern Link transmission line will be built as a long-term measure.

What exactly this means is unclear. PMX did not specify any additional allocation to fund the Southern Link beyond the RM764 million promised in the 2026 Budget.

Put plainly, RM765 million would only pay for approximately 100 out of the 330-kilometre proposed. In total, the Southern Link is estimated to cost between RM1.5 to RM2.2 billion. It is a giant and extremely expensive extension cord.

Despite more than RM1 billion in federal allocations, the central question of how to meet Sabah's power needs remains unresolved. Budget 2027 focuses only on transmitting electricity but completely ignores the main problem.

That is, Sabah's grid still relies on inefficient and ineffective forms of power generation.

So why is the 2027 Budget silent on the issue of Sabah's power generation? In January 2024, the DUN enacted laws through which Sabah independently regulates its own electricity supply.

This devolution of authority gives Sabah the right to decide who may develop power plants in the state. Previously, the Federal Energy Commission performed this role.

The approval to develop power plants in Sabah now comes under the Energy Commission of Sabah ('ECoS') and the Sabah Energy Council.

Where the Federal Government was unable to meet Sabah's needs, the Hajiji-led State Government has stepped in. This is vital if SESB is ever to break free of its unsustainable shareholding relationship with Tenaga Nasional Bhd. The latter owns 87% of the former.

This explains why Budget 2027 leaves power generation out. Putrajaya probably takes the view that, since responsibility now rests with Sabah, the state should therefore also bear the future costs of developing new power plants.

The Importance of Power Generation - A Long Overdue Matter

For decades the development of Sabah's manufacturing industry has suffered severely due to the lack of reliable power supply and insufficient power generation.

In 2025, manufacturing made up a mere 7.2% of Sabah's economy. In 2023, SESB served only 1,661 industrial customers, compared with 34,390 in Peninsular Malaysia.

In terms of reliability, annual power outages average about five hours in Sabah, compared with only 35 minutes in Semenanjung.

Sabah's unreliable power supply and frequent blackouts have deterred investors. Industries lack confidence to invest where an unreliable power grid causes manufacturers to rely on costly backup diesel generators which, in turn, drive up costs and reduce competitiveness.

For example, take the Palm Oil Industry Cluster ('POIC'). In 2022, it was reported that inconsistent power supply was a major obstacle deterring investment in POIC Lahad Datu.

This is woeful given that Sabah has cultivated more than a million hectares of oil palm and operates approximately 124



CPO mills.

Despite this, hardly any down streaming takes place in Sabah.

The limited down streaming of palm oil is the direct result of poor and unreliable baseload electricity supply. (Poor export logistics make this problem worse and will be the subject for another article).

Electricity Supply in Tawau and Sandakan

Another example lies in Tawau and Sandakan. Tawau's power supply depends partly on a 36-megawatt station comprising three turbine engines fuelled primarily by medium fuel oil ('MFO'). MFO-fired power generation is usually used for isolated locations, such as island resorts, where no alternative fuel source is available.

It is not suitable for a grid the size of Tawau's. The remainder of the energy mix in Tawau and Sandakan relies on costly diesel-fired generator sets. In Sandakan, the Libaran power plant has burned fuel oil since 1998.

The use of MFO and diesel fuel is costly. ECoS has stated that approximately 50% of the RM600 million federal electricity subsidy goes towards paying for MFO and diesel fuel used to electrify the east coast.

The high cost of using MFO and diesel fuel to electrify Tawau and Sandakan therefore explains Sabah's huge reliance on electricity subsidies.

Remove MFO and diesel from the mix and reliance on power generation subsidies reduces by half.

From this, it is obvious that the Tawau and Sandakan grids should use cheaper, gas fired power generation and yet, as observed by ECoS's chief executive, Sabah's east coast does not have access to gas. This is disturbingly ironic because Sabah contributes approximately 12% to Malaysia's gas production.

Yet Petronas appears unable and, in my view, unwilling to allocate sufficient gas to meet Sabah's industrial and power generation needs. Petronas prefers, instead, to export Sabah's gas to South Korea, among others, as Liquefied Natural Gas ('LNG'). To its credit, the GRS-led Sabah Government has set 2030 as the deadline for ending diesel and MFO fired electricity generation.

Moreover, ECoS and the Energy Council have also approved a 160-megawatt gas-fired power plant in Tawau, scheduled for completion in 2028.

This raises one obvious question. If Sabah can generate power on the east coast, then why is the Southern Link necessary at all? Should federal funds be allocated in other ways?

A Very Long and Expensive Extension Cord

The Southern Link is a 330KM, 275-kilovolt transmission line that will run from Sipitang to Tawau. Its purpose is to transmit power generated on the west coast to where power is needed on Sabah's east coast.

The project would also provide an alternative transmission line. This would reduce the kind of risk that saw, in September of last year, blackouts across the east coast caused by the failure of a single tower.

But the Southern Link has major and serious disadvantages. First, only the 60 kilometres, from Mengalong to Upper Padas, is presently under construction.

That section of the project costs RM198 million and is financed by a federal soft loan rather than a grant. It is due in 2028 and is approximately 17% complete.

The remaining 270 kilometres to Tawau have been costed by ECoS at RM1.4 billion.

In June, Datuk Armizan Mohd Ali, a federal minister and the secretary-general of GRS, could say only that he hoped the allocation would be approved in future.

Budget 2027, however, does not mention any specific allocation or sum. It only makes a vague assurance of support.

Third, because of its length and Sabah's tropical climate, approximately 3-6% of electricity transmitted through the Southern Link is lost due to what's known as 'line loss'. This means that the cost of electricity received on the east coast is less and will cost 3-6% more.

Fourth, although completion is targeted for 2030, at the current rate, it is estimated that the Southern Link will take at least 10 years to complete.

What then, is Sabah's east coast expected to do while waiting? Investors and industry cannot simply wait another 10 years while unreliable electricity supply continues to deter investment and suppress downstream growth.

Sabah must prioritise electricity generation over transmission. The state must build generation capacity first, then invest in the transmission infrastructure needed to complete the loop.

Sabah simply cannot afford to wait for

Federal funds to appear or for the lengthy construction time of what is nothing more than a giant extension cord.

Moreover, it is time for Sabah to end its fiscal dependence on Semenanjung and finance the development of its own electricity generating capacity.

For every year that Sabah waits for the Southern Link, the state falls further behind its neighbours and further risks investors taking their money elsewhere.

The Southern Link will not generate a single kilowatt of electricity. If the federal government wanted to help, funds should be allocated to assist Sabah to build power plants near Tawau and Sandakan instead of spending billions to transmit electricity from hundreds of kilometres away. Power generation must come first. Not the extension cord.

Power Generation under State Control

In July 2025, the Sabah Energy Council approved in principle a 160-megawatt gas-fired power station for Tawau. According to ECoS, the Tawau power plant's target date for commissioning will be 2028.

In Sandakan, the Chief Minister last month, announced a plan where an east coast gas field has been earmarked to supply a new power plant in the Sawit Kina-balu industrial park whilst allowing SESB's Batu Sapi station to be converted from diesel to gas.

This is the right way to go. But the rationale behind these new power plants must go further. ECoS has indicated that new gas plants will run as 'peaking stations'. This means that the power stations will operate for only around 8 hours a day during peak periods.

This is not enough. New power plants must be developed to supply base load electricity so that instances of blackouts and other such disruptions are kept at a minimum. For the east coast this means electricity supply that runs more cheaply and more reliably.

However, new power plants of this sort carry the risk that LNG supply is either limited or subject to global price fluctuations. LNG is bought at world prices, and the east coast has seen mega-projects abandoned before as a result.

This is where the Sabah government must be firm with Petronas.

Sabah gas sourced from Sabah gas fields must be supplied to Sabah power plants cheaply.

This is non-negotiable. If Petronas wishes to export the surplus to South Korea, then it should only do so after meeting Sabah's energy needs. It's time Sabah was put first.

What the Sabah Government Must Do

Sabah now has the regulatory tools as well as the ability to influence how gas is supplied throughout the state. However, its policy of dependence on federal funding for improvements and expansion of Sabah's electricity grid must end.

The state simply cannot sit around and wait for federal funding to appear or be announced at each annual Budget speech.

Instead, the Sabah government should initiate its own self-funded schemes to encourage and facilitate the development of additional baseload power generation facilities.

These should be financed and built ahead of the second phase of the Southern Link. Not after it.

Such action would complement Chief Minister Datuk Seri Hajiji Noh's plan for the Sabah government to take ultimate ownership and control of SESB from Tenaga Nasional Bhd.

Only when electricity distribution and sale is in Sabahan hands can serious and proper planning for improvements and efficiencies to the grid take place.

Any takeover of SESB, however, must include a business model that gradually lowers the cost of electricity generation and distribution. This, in turn, will reduce Sabah's dependence on federal subsidies, grants and allocations.

It is not enough for Semenanjung to pass on SESB as an underfunded, loss-making liability. Instead, the Sabah government must secure ownership whilst ensuring that sufficient transitional federal funding is in place to ensure enough time for new efficiencies and cost cutting measures to take effect.

Only through an operational model aimed at subsidy reduction and elimination can SESB hope to transform itself from an embarrassing burden into a viable commercial entity in its own right.

This will take time.

■ Tengku Fuad is a senior lawyer specialising in commercial and public law and has, and continues to, act for the Sabah Government in complex cases. In 2021 Tengku Fuad was appointed as a member of the Federal Government's Special Task Force to review legal matters related to the sovereignty of Batu Puteh, Middle Rocks and South Ledge and, in 2022, was also appointed to the Federal Government's Special Task Force to resist the Sultan of Sulu's (heirs) claim against Malaysia. Prior to establishing his firm, Tengku Fuad served as a public company director and was involved in the corporate sector.



Need to develop new power plants in the East Coast.