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Powering a new reinvestment cycle as demand surges

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EVEN as the government accelerates the rollout of renewable energy, the gas-fired power sector is entering what could be its most significant reinvestment cycle in over a decade, driven by rising electricity demand, ageing generation assets and tightening reserve margins.

A key development is Tenaga Nasional Bhd's (TNB) newly awarded 1.4GW combined-cycle gas turbine (CCGT) project in Paka, Terengganu, one of the largest gas-fired plants tendered in Peninsular Malaysia.

Notably, TNB, via a consortium with Aurora Power Generation Sdn Bhd, emerged as the sole winner under the Energy

Commission's NewGen25 tender for new builds.

The new 1.4GW plant will increase the company's Peninsular gross capacity by 9.3% to 16.7GW, reinforcing TNB's generation footprint.

Analysts estimate it could generate at least RM200mil in recurring annual net profit, assuming a capital expenditure of RM7bil to RM8bil and a project internal rate of return of 8% to 9%.

The utility has also secured power purchase agreement extensions for three gas-fired plants totalling about 1.3GW, allowing these facilities to continue operating until end-2029.

Meanwhile, Malakoff Corp Bhd

received extensions for about 2.08GW of capacity involving its Prai, GB3 and Segari Energy Ventures plants, while Edra Power Holdings Sdn Bhd was awarded extensions totalling 1.375GW.

These short-term extensions help balance rising electricity demand against the longer lead times required for new generation capacity to come onstream.

Analysts expect further repowering decisions and new builds to follow. For instance, TA Research pointed out that TNB's proposed repowering of its Paka site into a 1.4GW hydrogen-ready CCGT is ongoing.

It also highlighted that

Malakoff has received an Initial Letter of Notification for two proposed CCGTs with an aggregate capacity of 2.8GW.

These were not part of its NewGen25 tender submission, the research house said.

However, the economics of new gas-fired capacity are becoming more challenging.

The cost of gas turbines for a CCGT plant has risen sharply in recent years to an estimated US\$1mil to US\$1.5mil per MW, while a global supply shortage has also extended equipment delivery lead times.

Additionally, there will be an increasing need to secure gas supplies for these plants.

This will require a coordinated approach to procurement, construction and grid planning to ensure capacity keeps pace with the surge in electricity demand, particularly from new data centre investments.

On the positive side, the emerging reinvestment cycle is expected to generate downstream opportunities across the engineering, procurement and construction value chain – from turbine supply to balance-of-plant works and grid integration services.

This may also necessitate further investment in domestic gas supply infrastructure to support incremental capacity additions.