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Shift in electricity pricing

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Monthly tariff updates to be tied with fuel prices

ENERGY

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PETALING JAYA: Electricity users will face a more dynamic tariff setting under the Automatic Fuel Adjustment (Afa) mechanism, a reform expected to shift the way households and businesses perceive and respond to energy costs.

The new framework, effective from the second half of 2025, replaces the long-standing Imbalance Cost Pass Through (ICPT) and introduces monthly tariff updates tied to fuel price forecasts.

The release of guidelines by the Energy Commission earlier this month had clarified its workings – signalling a structural shift in the electricity pricing regime.

According to CGSI Research, the benefits of electricity tariff reform outweighing the costs.

"Users are likely to be more attuned to global price fluctuations amid the forward-looking monthly tariff changes.

"It also incentivises moving to solar generation which is aligned with the national transition towards renewable energy," it said in its report yesterday.

The research house highlighted that the new system was designed to make tariff adjustments more frequent, yet smoother.

"There are more advantages for moving towards more frequent price adjustments," it said, noting that volatility under the old ICPT model had led to abrupt changes when reviews were conducted only twice a year.

The Afa incorporates safeguards to mitigate shocks.

"Frequent adjustments reduce sudden and large tariff changes. Unlike the ICPT which is reviewed every six months, Afa is reviewed monthly and implemented automatically without needing to go through cabinet approvals for small adjustments," CGSI Research observed.

It added that upward adjustments are capped at 10% or three sen per month, with any increase beyond that threshold requiring cabinet approval.

The new structure is also expected to protect the most vulnerable consumers.

"Lower income households are insulated from tariff changes as consumers below 600kWh per month are exempted from the Afa. We estimate that over 80% of residential users will not see any change to their tariff rates irrespective of commodity price fluctuations," CGSI Research noted.

Still, the shift is not without risks.

"Price volatility is not necessarily a good thing. In an environment of high global commodity prices, Afa tariff surcharges would burden households and businesses facing higher cost of other goods and operations," said the research house.

It also stressed that "tariff is as good as its forecast. A missed forecast means that any rebate/surcharge will be reflected in subsequent months."

The government has earmarked significant fiscal resources to support the rollout.

The Energy Transition and Water Transformation Ministry estimated the reform would carry a financial implication of RM3.57bil in the second half of 2025, largely to fund exemptions for residential users consuming under 600kWh per month.

This, together with RM2.4bil already allocated for the first half of the year, brings total electricity subsidies to around RM6bil for 2025.

At the corporate level, Tenaga Nasional Bhd (TNB) has already adjusted its base tariff to 45.4 sen per kWh, a 14.2% increase announced in July.

Market fears of a sharper hike were tempered by the concurrent introduction of offsetting mechanisms within the Afa.

With TNB's rolling three-month forecasts pointing towards lower tariffs ahead, CGSI Research expected both residential and commercial users to benefit from rebates, with October 2025 projected to deliver the largest relief.