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TNB navigates rising generation costs

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UNDER REGULATED POWER FRAMEWORK

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KUALA LUMPUR: Tenaga Nasional Bhd's (TNB) role at the centre of Peninsular Malaysia's electricity system extends beyond that of a conventional profit-driven business, with tariffs, expenditure and returns governed by a regulated framework while the utility firm maintains critical power infrastructure.

Electricity tariffs in the peninsula are determined under a framework administered by the Energy Commission, which may determine tariffs and charges levied by a licensee under Section 26 of the Electricity Supply Act 1990, subject to the energy transition and water transformation minister's approval.

That oversight extends to the Incentive-Based Regulation (IBR) framework, which determines the prudent and efficient costs recoverable by regulated entities, establishes performance targets and provides for a fair and reasonable return on regulated assets.

As a result, electricity bills reflect not only the cost of generating power but also a regulated system governing tariffs, infrastructure investment and cost recovery.

REGULATED PRICING AND GOVERNMENT OVERSIGHT

The current Regulatory Period 4 (RP4), which runs from July 1, 2025, to Dec 31, 2027, provides the framework for determining the costs and revenues of regulated electricity businesses.

On June 20, 2025, the Energy Commission announced an average base tariff of 45.40 sen per kilowatt-hour (kWh) for RP4, lower than the 45.62 sen per kWh approved by the government in December 2024. The revised tariff schedule took effect on July 1, 2025.

Under the IBR, the base tariff incorporates efficient capital expenditure and operating expenditure for transmission, distribution, grid system operation, single buyer and retail operations, as well as a regulated return on the relevant asset bases.

The Energy Commission, in turn, reviews regulated entities' performance and expenditure against approved projections, while regulated and non-regulated businesses are required to be separated.

The RP4 tariff restructuring has also unbundled electricity charges into energy, capacity, network and retail components, giving consumers greater visibility over what they are paying for.

According to the Energy Commission, the revised structure is intended to make electricity charges more transparent and reflective of the industry's underlying cost structure.

Such regulatory oversight is key

for transmission and distribution networks, which have natural-monopoly characteristics, as duplicating large-scale grid infrastructure would be costly and inefficient.

The Energy Commission's role therefore extends beyond tariff setting to ensuring the security, reliability, efficiency and quality of electricity supply while guarding against the misuse of monopoly or market power.

Together, these arrangements place TNB's regulated businesses in a different position from companies where pricing, investment and returns are determined largely by commercial considerations.

Finance Minister II Datuk Seri Amir Hamzah Azizan, who served as TNB president and chief executive officer from 2019 to 2021, said TNB carries a significant responsibility in maintaining the balance within the electricity system.

"TNB carries a large part of the responsibility for getting this balance right, and as we've seen recently from the noise over electric bills, it is a genuinely difficult role," he said in his recent LinkedIn post.

CONSUMER PROTECTION COMES AT A COST

The question of who ultimately bears electricity costs has also come into sharper focus for domestic consumers.

Amir said public frustration over higher electricity bills is understandable, noting that prolonged haze and El Nino conditions have pushed household consumption higher than usual and that consumers crossing the subsidy threshold faced the full cost of their usage.

"No pricing framework can insulate households from the weather," he said.

Amir said the move meant 90 per cent of domestic users would remain within the protected range, with TNB and the Electricity Industry Fund absorbing the cost while the Energy Transition and Water Transformation Ministry and the Energy Commission work on a more permanent solution.

TNB president and chief executive officer Datuk Shamsul Ahmad said the higher threshold shields an additional one million consumers, taking the total number benefiting to more than eight million, with those consuming less than 800 kWh a month exempt from the AFA, retail charges and sales and service tax.

The protection, however, carries a cost, with TNB estimating RM120 million to RM150 million will be required to absorb the AFA cost difference until December. **Bernama**