Incentive-based Regulation (IBR) is a framework for electricity tariff setting with built-in incentives to improve efficiency of regulated entities and give greater transparency for customers.

**Key Features**

1. Prudent and efficient cost in tariff determination
2. Structured tariff regulatory process:
   - Regulatory period is fixed, currently at 3 years review
   - Establishment of regulatory accounts and reporting mechanism
3. Separation of accounts of regulated business units
4. Determination of fair and reasonable return to regulated entities
5. Imbalance cost pass-through mechanism for uncontrollable costs (changes in forecast vs actual cost of generation)
6. Setting of performance targets with incentive/penalty mechanism by regulator
7. Efficiency sharing between regulated entities and consumers in the next tariff review

**Building blocks formulae to establish revenue requirement of regulated entities**

\[
\text{Aggregate Revenue Requirement} = \text{WACC (Return)} \times \text{Regulated asset base (RAB)} + \text{OPEX} + \text{Depreciation} + \text{Tax} + \text{Efficiency carryover amount}
\]

**Section 26, Electricity Supply Act 1990**

Empower Suruhanjaya Tenaga to review and determine the electricity tariff with approval by the Minister

**Current Policy**

Incentive-based Regulation framework for electricity tariff review and determination

**Objective**

To deliver efficient and reliable electricity supply at the efficient cost and reasonable tariff.