

REGULATORY IMPLEMENTATION GUIDELINES

ON ELECTRICITY TARIFF DETERMINATION
UNDER INCENTIVE-BASED REGULATION (IBR)
FOR PENINSULAR MALAYSIA 2025

Established pursuant to section 26 and 50C of Act 447

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[Act 447]

GUIDELINES ON ELECTRICITY TARIFF DETERMINATION UNDER INCENTIVE-BASED REGULATION (IBR) FOR PENINSULAR MALAYSIA 2025

GP/ST/No. 56/2025

IN exercise of the powers conferred by sections 26 and 50C of the Electricity Supply Act 1990 [Act 447], the Commission issues the following Guidelines on Electricity Tariff Determination under Incentive Based Regulation (IBR) for Peninsular Malaysia 2025:

Purposes

1. These Guidelines are necessary for the following purposes:
 - i) to establish the IBR framework that is employed by the Commission in approving revenues and tariffs for the Regulated Services of the Regulated Business Entities in Peninsular Malaysia;
 - ii) to specify the objectives of the IBR framework that guide the Commission in reviewing and approving revenue and tariff proposals submitted by the Regulated Business Entities;
 - iii) to define the entities and services that are subject to revenue and tariff regulation by the Commission under the IBR framework and the requirements of these Guidelines; and

- iv) to define the Automatic Fuel Adjustment (AFA) mechanism which replace the ICPT mechanism effective 1 July 2025 along with all associated clauses and calculation formulas.

Interpretation

2. The terms and expressions used shall, unless defined in these Guidelines or the context otherwise requires, have the same meaning as in the Electricity Supply Act 1990 [Act 447], including any modification, extension or re-enactment thereof and any subsidiary legislation made there under.

Citation and commencement

3. These Guidelines may be cited as the **Guidelines on Electricity Tariff Determination under Incentive-Based Regulation (IBR) for Peninsular Malaysia 2025** and shall come into operation on the date of its registration.

Revocation

4. The contents of these Guidelines shall be as in ANNEX I and the Guidelines on Electricity Tariff Determination under Incentive-Based Regulation (IBR) for Peninsular Malaysia with the registration numbers of GP/ST/No.2/2016, GP/ST/No.2/2016 (Pin.2018), GP/ST/No.2/2016 (Pin.2021) and GP/ST/No.2/2016 (Pin.2022) are revoked.

Application

5. These Guidelines shall apply to the Regulated Services of the Regulated Business Entities in Peninsular Malaysia under the IBR framework such as Single Buyer Operations, Transmission, Grid System Operator, Distribution Network and Customer Services, who are licensed under Section 9 of the Electricity Supply Act 1990 [Act 447].

Notice by the Commission

6. The Commission may issue written notices from time to time in relation to these Guidelines.

Amendment and variation

7. The Commission may at any time amend, modify, vary or revoke these Guidelines or any part thereof, under any of the following circumstances:
- i) to effect changes in the electricity supply industry;
 - ii) where it is expedient to ensure reliability of the electricity supply system;
 - iii) to rectify any inconsistency or unintentional errors giving rise to grave consequences; and
 - iv) any other justifiable reason as the Commission deems necessary.

Dated: 28 July 2025



SITI SAFINAH SALLEH
Chief Executive Officer
for Energy Commission

ANNEX 1:

**GUIDELINES ON ELECTRICITY TARIFF
DETERMINATION UNDER INCENTIVE-BASED
REGULATION (IBR) FOR
PENINSULAR MALAYSIA 2025**

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1. Basis and Purpose

- 1.1. These Regulatory Implementation Guidelines (RIG) are issued by the Commission under the powers conferred by sections 26 and 50C of the Electricity Supply Act 1990 [Act 447].
- 1.2. These Guidelines:
 - (a) Establish the Incentive-Based Regulation (IBR) framework that is employed by the Commission in approving revenues and tariffs for the Regulated Services of the Regulated Business Entities (RBE) in Peninsular Malaysia.
 - (b) Specify the objectives of the IBR framework that guide the Commission in reviewing and approving revenue and tariff proposals submitted by the RBE.
 - (c) Define the entities and services that are subject to revenue and tariff regulation by the Commission under the IBR framework and the requirements of these Guidelines.
- 1.3. Consistent with section 26 of the Electricity Supply Act 1990 [Act 447], the purpose of these Guidelines is to describe the methodology, principles, procedures and requirements that must be complied by RBE in submitting electricity tariff proposals.

END OF SECTION

2. Incentive-Based Regulation Framework

Objectives of the IBR framework

2.1. The objectives of the IBR framework are to:

- (a) Protect electricity consumers from any potential misuse of monopoly or market power.
- (b) Provide reasonable assurance that, provided that a licensee is efficient, well managed and appropriately financed, it will receive revenues from tariffs and charges that will cover its costs (including a reasonable return on capital) of providing the Regulated Services.
- (c) Facilitate the financing of required and efficient investments in electricity infrastructure and supply.
- (d) Provide incentives for licensees to deliver outcomes consistent with consumer needs and priorities, including efficient operation and quality of service.
- (e) Provide for efficient and evolving allocations of risk between licensees and electricity consumers.
- (f) Design electricity tariff structures that maximise the efficiency of electricity supply and consumption for the approval of the Commission.
- (g) Ensure that revenue and tariff regulation is transparent, that it follows principles consistently, and that regulatory proposals from licensees and the Commission determinations are evidence-based.
- (h) Safeguard that the Commission reviews and approves revenue and tariff proposals in compliance with its prescribed roles and responsibilities in relation to regulating the electricity supply industry, as outlined in the Electricity Supply Act 1990 and the Energy Commission Act 2001.

Description of the Incentive-Based Regulation framework

- 2.2. For the purposes of regulating the revenues and tariffs of licensees responsible for electricity supply in Peninsular Malaysia, the Commission has established the IBR framework as embodied in these Guidelines.
- 2.3. Under the IBR framework, the Regulated Tariffs charged for the provision of Regulated Services shall not exceed an Allowed Average Tariff.
- 2.4. The Allowed Average Tariff is capped at a level that allows a licensee to recover an Allowed Revenue, representing the estimated efficient costs (including financing costs) of providing the Regulated Services.
- 2.5. The Allowed Revenue is determined for the Regulatory Periods. A Base Average Tariff is calculated for each Regulatory Period which will allow a licensee to recover its Allowed Revenue for that period.
- 2.6. The Allowed Average Tariff in each year is calculated as the sum of the Base Average Tariff and any applicable adjustments, such as those related to the Revenue-Cap and Price-Cap mechanisms as described in these Guidelines.
- 2.7. The licensee may also apply a surcharge (for cost increase) or rebate (for cost decrease) for changes in fuel and other generation costs from those originally forecast and included in the Forecast Energy Cost, under the Automatic Fuel Adjustment (AFA) mechanism. The AFA is a surcharge or rebate and does not form part of the Allowed Average Tariff and is calculated and applied separately.

Incentives on licensees

- 2.8. If a licensee is able to reduce its actual costs below the estimated efficient costs embedded in the Allowed Revenue, then it is able to retain the resulting savings and increased profits. Conversely, if a licensee's costs exceed the estimated efficient costs, then the licensee will bear the difference, and its profits will be correspondingly reduced. This provides the incentives for a licensee to improve efficiency above and beyond the expected improvements included in the Allowed Revenue estimation.
- 2.9. The estimation of Allowed Revenue for each Regulatory Period will take account of a licensee's actual costs achieved in preceding periods. This provides the mechanism by which cost reductions resulting from better-

than-expected efficiency performance by a licensee are returned to electricity consumers.

- 2.10. In order to provide incentives for a licensee to maintain and, where economically efficient, improve the quality of Regulated Services, incentives and penalties shall be applied to the Allowed Revenue reflecting the licensee's performance against the quality of service benchmarks.

Length of the Regulatory Period

- 2.11. The Commission will determine the length of each Regulatory Period no later than twelve months prior to the start of the next period.

Application to Tenaga Nasional Berhad

- 2.12. Tenaga Nasional Berhad (TNB) is organised into multiple RBE. At present, the following process is applied in estimating Allowed Revenues and determining the Base Average Tariff for each Regulatory Period:

- (a) The Allowed Revenues for each RBE are separately estimated in accordance with these Guidelines. From these, a Base Average Tariff is calculated for each RBE.
- (b) The Minister approves a Bundled Base Average Tariff applicable to TNB as a whole. This approved Bundled Base Average Tariff may or may not be equal to the sum of the estimated Base Average Tariff for each RBE and the Average Generation Cost.
- (c) Where a difference exists between the Bundled Base Average Tariff and the sum of the estimated Base Average Tariff for each RBE and the Average Generation Cost then TNB shall, for the purposes of internally allocating revenues and costs between each RBE, allocate all such differences to the Customer Services RBE.
- (d) Similarly, where a difference exists between the Bundled Allowed Average Tariff and the sum of Allowed Average Tariff (after annual regulatory adjustment) for each RBE and the Average Generation Cost then TNB shall, for the purposes of internally allocating revenues and costs between each RBE, allocate all such differences to the Customer Services RBE.

- 2.13. It is expected that, in future, the Minister will approve an individual Base Average Tariff for each RBE. As and when this happens, the Minister will cease to approve a Bundled Base Average Tariff. Instead, an Unbundled Base Average Tariff will be calculated as the sum of the approved Base Average Tariff for each RBE and the Average Generation Cost. Similarly, the Unbundled Allowed Average Tariff will be calculated as the sum of the Allowed Average Tariff for each RBE and the Average Generation Cost.
- 2.14. In these Guidelines, the calculation of the Bundled Allowed Average Tariff, comprising the sum of the Bundled Base Average Tariff approved by the Minister and adjustments, is presented in Section 5. The calculation of the Allowed Average Tariff by RBE, comprising the Base Average Tariff for each RBE as approved by the Minister and adjustments, is presented in Section 6. Section 5 shall apply so long as the Minister continues to approve a Bundled Base Average Tariff applicable to TNB as a whole and Section 6 shall apply as and when the Minister approves a Base Average Tariff for each individual RBE.

END OF SECTION

3. Application of the IBR framework

Regulated Services

- 3.1. The IBR framework applies to Regulated Services which include, but not limited to:
- (a) the operation, maintenance and investment in the electricity transmission system;
 - (b) the operation, maintenance and investment in the electricity distribution system;
 - (c) the wholesale purchase and sale of electricity to licensees and authorised suppliers; and
 - (d) the retail sale of electricity to consumers.
- 3.2. The costs of generation of electricity are not subject to the IBR framework and are separately regulated through approved Power Purchase Agreements (PPA) in the case of independently-owned generators and through approved Service Level Agreements (SLA) in the case of generators sharing common ownership with a licensee providing Regulated Services. These generation costs are treated as a pass-through item, comprising the sum of the Average Generation Cost (Energy and Capacity), included in the Base Average Cost and the AFA.
- 3.3. The costs of providing Regulated Services are recovered from Regulated Tariffs.
- 3.4. Other Income which is earned from services not directly related to electricity supply, but which are provided using the assets and/or staff of a licensee is deducted from the revenues to be earned from Regulated Tariffs as part of the calculation of adjustments.
- 3.5. Consumer contributions are considered to represent a deferred income used to support the revenues needed to recover the costs of licensees in providing Regulated Services. These contributions are used to reduce the Regulated Tariffs as part of the calculation of adjustments.

RBE under TNB

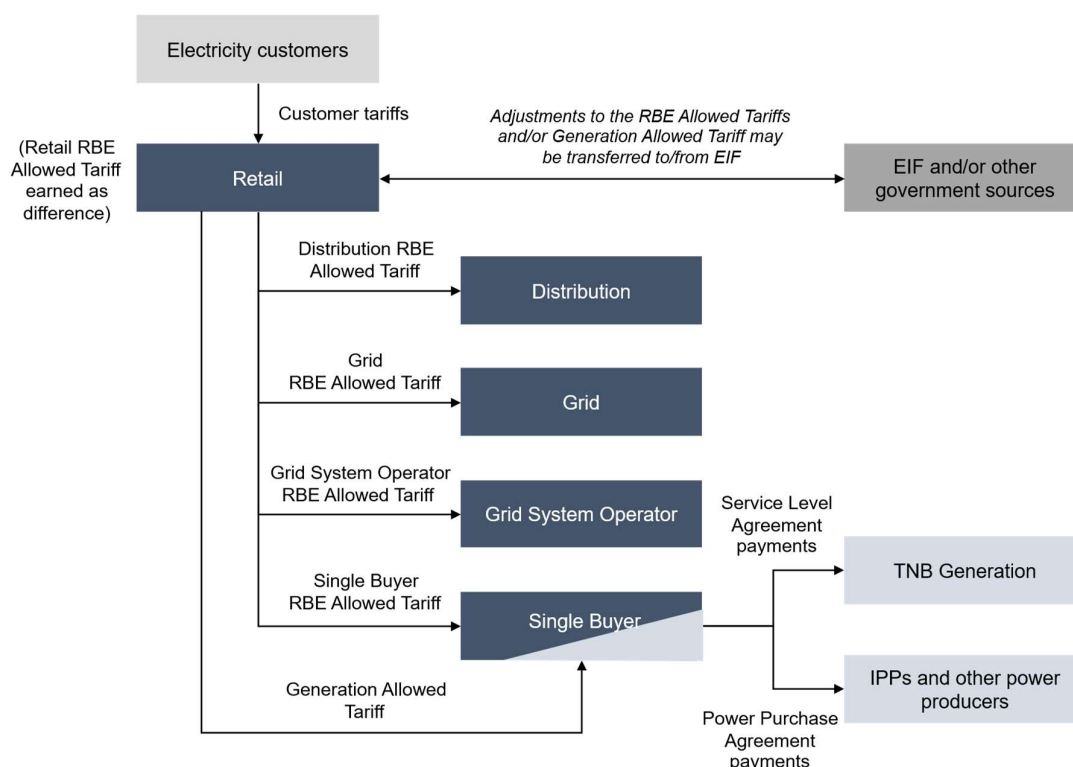
- 3.6. TNB is organised into a number of RBE, each representing one of the functions involved in the supply of electricity. These RBE currently comprise the following:
- (a) **Single Buyer Operations** is the RBE responsible for managing the procurement of electricity and related services, including long-term planning, scheduling, procuring and settling electricity supply in accordance with the Guidelines for Single Buyer Market (Peninsular Malaysia) and the Grid Code for Peninsular Malaysia.
 - (b) **Transmission** is the RBE responsible for planning, investing in, operating and maintaining the electricity transmission network, that is, the system of lines, substations and related equipment at 132kV and above.
 - (c) **Grid System Operator** is the RBE responsible for system security, operational planning, the dispatch of generating units, real-time operation and control of the power system, and coordinating all parties connected to the Grid System in accordance with the Malaysian Grid Code for Peninsular Malaysia.
 - (d) **Distribution** is the RBE responsible for planning, investing in, maintaining, and undertaking the real-time operation and control of the electricity distribution system, that is, the system of lines, substations, and related equipment and buildings below 132kV.
 - (e) **Customer Services** is the RBE responsible for supplying and selling electricity to, and managing the interface with, final consumers of electricity.
- 3.7. The power purchase costs of the Single Buyer are referred to in these Guidelines as Single Buyer Generation and are subject to separate rules and provisions to those used to determine the allowed costs and revenues of the RBEs. These are distinct from the costs of the Single Buyer's own operations, referred to in these Guidelines as Single Buyer Operations. Reference to the Single Buyer unless otherwise qualified refer to the Single Buyer Operations and exclude the Single Buyer Generation.
- 3.8. The Customer Services business entity charges electricity customers a tariff for their consumption of electricity. This tariff is a bundled tariff and incorporates a charge for all Generation (Independent Power Producers -

IPP, TNB Generation, other power producers, fuel suppliers) and cost of Single Buyer Operations, Transmission, Grid System Operator, Distribution Network and Customer Services). Customer Services receives all the tariff revenue from electricity customers and subsequently pays the Single Buyer, Transmission, Distribution Network and Grid System Operator business entities their share of revenue based on the approved tariffs for each individual business entity.

- 3.9. The Single Buyer charges a Single Buyer Tariff to the Customer Services business entity, comprising a Generation component (based on forecasts costs of generation determined under the PPA, SLA and various other fuel and energy procurement contracts) and an Operations component (based on the operating costs of managing the operations of the Single Buyer). The Single Buyer receives the Generation Revenue and pays TNB Generation, the IPP, other power producers and fuel suppliers.

- 3.10. The flow of funds between the five RBE is shown as following diagram:

The flow of funds for the Regulated Business Entities



- 3.11. An Allowed Revenue and an Allowed Average Tariff is calculated for each RBE in accordance with these Guidelines.
- 3.12. Where an individual RBE is a unit within TNB, the Allowed Average Tariff shall be notional in nature as no actual payments and cash transfers will take place between RBE, as these form part of the same legal entity. This shall not prevent TNB managing each RBE as an internal cost or profit centre, if desired.

Formation of an Independent Single Buyer and Independent Grid System Operator

- 3.13. Once formation of an Independent Single Buyer (ISB) and Independent Grid System Operator (IGSO) completed, these are the proposed enhancement related to the current RIG under the IBR framework as follows:
- (a) The terms of Single Buyer and Grid System Operator shall be deemed to change as ISB and IGSO in these Guidelines.
 - (b) ISB and IGSO shall be treated as regulated business entities.
 - (c) Customer Services business entity receives the tariff revenue from electricity customers and subsequently pays the other RBE based on the approved individual tariff as mentioned in Section 3.8. Thus, the Customer Services is responsible for payment the tariff revenue to ISB and IGSO once they are converted as an independent entity.
 - (d) Establishment of key performance indicators that will be linked to incentives and penalties.
 - (e) Determination of an Allowed Revenue Requirement and an Allowed Average Tariff for ISB and IGSO shall be calculated in accordance with Section 8 to 18 in these Guidelines.

Forms of control

- 3.14. Two different forms of IBR control are applied under these Guidelines:
- (a) **Price-Cap.** The average allowed revenue (expressed in sen/kWh) is fixed for the duration of the Regulatory Period. The licensee may

not charge tariffs that lead to an actual average revenue in excess of the Price-Cap. Where it does so, the excess is returned to customers through an annual Price-Cap Adjustment. A Price-Cap means that the actual revenue of a licensee will differ from its Allowed Revenue where actual sales volumes differ from the forecast sales volumes used to calculate the Allowed Revenue and the Price-Cap.

- (b) **Revenue-Cap.** The total allowed revenue (expressed in RM) is fixed for the duration of the Regulatory Period. The licensee may not earn more or less than the allowed revenue. Where it does so, the Allowed Average Tariff is subsequently adjusted to offset the difference in revenues through an annual Revenue-Cap Adjustment. A Revenue-Cap means that the actual revenue of a licensee will equal its Allowed Revenue even where actual sales volumes differ from the forecast sales volumes used to calculate the Allowed Revenue.

Revenue-Cap RBE

- 3.15. A Revenue-Cap is applied to the following RBE, which are collectively designated as the “Revenue-Cap RBE”:
 - (a) Single Buyer Operations
 - (b) Grid System Operator
 - (c) Transmission
 - (d) Distribution
- 3.16. The Commission may amend this list at any time by adding or removing RBE.
- 3.17. For each of the Revenue-Cap RBE, a Revenue-Cap Adjustment will be annually calculated and applied to the Allowed Average Tariff.

Price-Cap Adjustment with bundled tariff

- 3.18. Where the Minister approves a Bundled Base Average Tariff, in accordance with Section 2.12, then the Price-Cap shall apply to the

bundled tariff. In this instance, the Price-Cap Adjustment shall be calculated annually as the difference between the Bundled Actual Average Revenue and the Bundled Allowed Average Tariff.

- 3.19. The Bundled Allowed Average Tariff is calculated as the sum of the Bundled Base Average Tariff and of the individual Revenue-Cap Adjustments for Revenue-Cap RBE and of the Bundled Price-Cap Adjustment applied to the bundled tariff.
- 3.20. The Allowed Average Tariff applicable to those RBE not regulated under a Revenue-Cap is calculated as the Bundled Allowed Average Tariff less the sum of the Average Generation Cost and of the Allowed Average Tariffs for each individual Revenue-Cap RBE.

Price-Cap Adjustment with unbundled tariff

- 3.21. Where the Minister approves a Base Average Tariff for each individual RBE, in accordance with Section 2.13, then a Price-Cap shall apply to the following RBE, which are collectively designated as the “Price-Cap RBE”:
 - (a) Customer Services.
- 3.22. The Commission may amend this list at any time by adding or removing RBE.
- 3.23. For each of the Price-Cap RBE, a Price-Cap Adjustment will be annually calculated and applied to the Allowed Average Tariff.
- 3.24. In this instance, the Price-Cap Adjustment shall be calculated annually as the difference between the Actual Average Revenue and the Allowed Average Tariff for each individual Price-Cap RBE.
- 3.25. The Unbundled Allowed Average Tariff is calculated as the sum of the Average Generation Cost and of the Allowed Average Tariffs for each individual RBE.

Price-Cap Adjustment in cases of under-recovery

- 3.26. In general, it is assumed that a licensee operating under a Price-Cap will be able to adjust individual Regulated Tariffs such that its expected average revenue is equal to the Price-Cap. Therefore, any under-recovery

where the actual average revenue is below the Price-Cap is assumed to be a voluntary decision by the licensee.

- 3.27. At present, the Minister continues to approve variations in individual Regulated Tariffs from time to time and, therefore, this assumption does not necessarily hold. In recognition of this, so long as the Minister continues to approve variations in individual Regulated Tariffs, a limited Price-Cap Adjustment will be made for under-recovery where the Actual Average Revenue is below the Allowed Average Tariff. This under-recovery adjustment will be subject to a floor set at 2.5% of the Base Average Tariff.
- 3.28. The Commission may determine when the conditions for allowing such under-recovery no longer hold. Following such a determination, no adjustment for under-recovery will be permitted.
- 3.29. For the avoidance of doubt, a Price-Cap Adjustment will apply at all times where there is over-recovery where the Actual Average Revenue is above the Allowed Average Tariff. This adjustment shall not be subject to any ceiling.

END OF SECTION

4. Setting regulated tariffs

Allowed Average Tariff

- 4.1. In any given year of a Regulatory Period, a licensee shall set its Regulated Tariffs such that it shall earn no more than the Allowed Average Tariff.
- 4.2. The Allowed Average Tariff is calculated as an average and does not prohibit the adoption of different tariffs and tariff structures for different services and different electricity customers.

Principles of Regulated Tariffs

- 4.3. The Regulated Tariffs must be consistent with the following principles:
 - (a) **Cost-reflective.** The tariffs must be broadly reflective of the different costs of services to different customers.
 - (b) **Cost-recovery.** The tariffs must at least recover the incremental costs of providing but must not recover more than the stand-alone costs of providing each individual Regulated Service.
 - (c) **Non-discrimination.** The tariffs for an individual Regulated Service may only differ between customers where there are significant differences in the costs of service to these different customers.

Tariff Table

- 4.4. The individual Regulated Tariffs shall be set out in a Tariff Table which lists tariffs by customer and type. The Tariff Table shall be published by a licensee on its website and by such other means as it considers appropriate to bring the Tariff Table to the attention of existing and prospective customers.
- 4.5. Prior to the commencement of each Regulatory Period, a licensee shall prepare and submit to the Commission a proposed Tariff Table for the next Regulatory Period. The submission should include:

- (a) The licensee shall provide the estimated cost of service based on voltage level and classified into demand, customer and energy related-costs and an explanation of the estimates including data used and methodologies applied. These methodologies may follow any individual or combination of internationally accepted approaches including, but not limited to, the use of long-run marginal cost estimates and of embedded cost estimates.
 - (b) TNB shall provide a justification of the proposed individual Regulated Tariffs showing that these meet the principles set out in this section. The accompanying justification must also explain any changes from the existing Tariff Table. The tariffs set out in the proposed Tariff Table must be consistent with the Base Average Tariff proposed by TNB for the next Regulatory Period.
- 4.6. The Tariff Table will be reviewed and approved alongside the proposed Annual Revenue Requirements and proposed Base Average Tariff.
 - 4.7. Once approved, the Tariff Table will be updated in every Regulatory Period.
 - 4.8. The AFA, Revenue-Cap Adjustment and Price-Cap Adjustment are supplementary to the applicable Regulated Tariff and do not form part of the Tariff Table.

END OF SECTION

5. Calculation of the Bundled Allowed Average Tariff

Application of this section

- 5.1. This Section 5 shall apply for the calculation of the Bundled Allowed Average Tariff where the Minister approves a Bundled Average Base Tariff for TNB as a whole. Where the Minister approves an individual Base Average Tariff for each RBE then the calculation of the Allowed Average Tariff will follow the provisions of Section 6.

Components of the Bundled Allowed Average Tariff

- 5.2. The Bundled Allowed Average Tariff is the sum of:
- (a) the Base Average Tariff for TNB for the Regulatory Period, as approved by the Minister;
 - (b) the sum of Revenue-Cap Adjustments for each Revenue-Cap RBE, calculated annually; and
 - (c) the Price-Cap Adjustment applied to TNB as a whole, calculated annually.

The Revenue-Cap Adjustments and Price-Cap Adjustment as mentioned above are treated as the Annual Regulatory Adjustment.

- 5.3. The calculation of the Bundled Allowed Average Tariff is made according to the following formula:

$$bALLW_t = bBASE_P + bRCAP_t + PCAP_t$$

Where:

'P' is a Regulatory Period

't' is a single year (1 January to 31 December) in Regulatory Period 'P'

'bALLW_t' is the Bundled Allowed Average Tariff for the year 't' (expressed in sen/kWh)

'bBASE_P' is the Bundled Base Average Tariff for Period 'P' (expressed in sen/kWh)

'bRCAP_t' is the Bundled Revenue-Cap Adjustment in year 't' (expressed in sen/kWh)

'PCAP_t' is the Price-Cap Adjustment in year 't' (expressed in sen/kWh)

- 5.4. The Allowed Average Tariff for the Customer Services RBE shall be calculated as follows:

$$ALLW_{t,cs} = bALLW_t - \left(\sum_{rc=1}^{RC} BASE_{P,rc} + AGEN_p + bRCAP_t \right)$$

Where:

'cs' is the Customer Services RBE

'rc' is an individual Revenue-Cap RBE

'BASE_{P,rc}' is the Base Average Tariff for Revenue-Cap RBE 'rc' for Regulatory Period 'P' (expressed in sen/kWh)

'AGEN_P' is the Average Generation Cost for Regulatory Period 'P' (expressed in sen/kWh)

'ALLW_{t,cs}' is the Allowed Average Tariff for the Customer Services RBE in year 't' (expressed in sen/kWh)

Calculation of the Bundled Base Average Tariff

- 5.5. The Bundled Base Average Tariff for each Regulatory Period is that approved by the Minister. This may or may not be equal to the sum of the Base Average Tariffs for each RBE and the Average Generation Cost, calculated as below.

- (a) **Calculation of Base Average Tariff for individual RBE:** A Base Average Tariff shall be calculated for each RBE prior to each Regulatory Period as the present value of Annual Revenue Requirements over the Regulatory Period, divided by the present value of forecasted electricity sales, in accordance with the following formula:

$$BASE_{P,e} = \left[\sum_{t=1}^T \frac{REQT_{t,e}}{(1 + WACC_{P,e})^t} \right] / \left[\sum_{t=1}^T \frac{FSAL_t}{(1 + WACC_{P,e})^t} \right]$$

Where:

'e' is an individual RBE

'T' is the length of Regulatory Period 'P' in years

'REQT_{t,e}' is the Annual Revenue Requirement of RBE 'e' in year 't' (expressed in RM)

'FSAL_t' is the forecasted total electricity sales in year 't' as made at the time of setting the Base Average Tariff (expressed in kWh)

'WACCP_e' is the allowed Weighted Average Cost of Capital of RBE 'e' for Regulatory Period 'P' (expressed as a percentage)

(b) **Calculation of the Average Generation Cost.** The Average Generation Cost shall be calculated for Single Buyer Generation prior to each Regulatory Period.

(i) The Generation Costs shall comprise of two components, which are the energy costs and fixed generation costs. **Energy costs** are the variable cost of electricity generation, primarily driven by the cost of fuels, including gas, coal, and other sources, used in electricity generation. **Capacity costs** is the fixed cost of electricity generation, primarily driven by the costs associated with maintaining the availability and readiness of generation capacity.

(ii) The Average Generation Cost shall be calculated prior to each Regulatory Period as the present value of Forecast Energy Costs and Forecast Capacity Costs as specified in Power Purchase Agreements and Service-Level Agreements over the Regulatory Period, divided by the present value of forecasted electricity sales, in accordance with the following formula:

$$AGEC_P = \left[\sum_{t=1}^T \frac{FGEC_t}{(1 + WACCP_{sb})^t} \right] / \left[\sum_{t=1}^T \frac{FSAL_t}{(1 + WACCP_{sb})^t} \right]$$
$$FGEC_t = FEYC_t + FFGC_t$$

Where:

't' is the year in the Regulatory Period

'AGECp' is the Average Generation Cost for Regulatory Period 'P' (expressed in sen/kWh)

'FGEct' is the Total Forecast Generation Cost for in year 't' (expressed in RM)

'FEYct' is the Total Forecast Energy Cost for Regulatory Period 'P' (expressed in RM)

'FFGct' is the Total Forecast Capacity Cost for Regulatory Period 'P' (expressed in RM)

- (iii) Forecast fuel costs and forecast other generation costs shall be calculated using appropriate power system models and shall be based on the most recent approved planting (generation investment) programme, approved electricity demand forecast, and approved level of efficient system losses as decided by the Planning and Implementation Committee for Electricity Supply and Tariff (JPPPET).
- (iv) The Total Forecast Generation Cost may be calculated on a monthly basis for a calendar year and then aggregated to provide the Total Forecast Generation Cost for year 't', or calculated on a yearly basis. The Commission may prescribe the approach.

Calculation of the Bundled Revenue-Cap Adjustment

- 5.6. The Revenue-Cap Adjustment is calculated annually for each Revenue-Cap RBE and is then summed to give the Bundled Revenue-Cap Adjustment applicable, according to the following formula:

$$bRCAP_t = \sum_{rc=1}^{RC} RCAP_{t,rc}$$

Where:

' $RCAP_{t,rc}$ ' is the Revenue-Cap Adjustment for Revenue-Cap RBE 'rc' in year 't'

- 5.7. The Revenue-Cap Adjustment for each Revenue-Cap RBE shall be calculated in accordance with the following formula:

$$RCAP_{t,rc} = \frac{RSL S_{t,rc} + OTHR_{t,e} + UPOX_{t,e} + INTR_{t,e}}{USAL_t}$$

Where:

' $RSL S_{t,rc}$ ' is the Revenue-Cap Sales Adjustment for Revenue-Cap RBE 'rc' in year 't' (expressed in RM)

' $OTHR_{t,e}$ ' is the Other Income Adjustment for RBE 'e' in year 't' (expressed in RM)

' $UPOX_{t,e}$ ' is the Unpredictable Opex Adjustment for RBE 'e' in year 't' (expressed in RM)

' $INTR_{t,e}$ ' is the Interim Review Adjustment (if any), resulting from any interim review determinations by the Commission, for RBE 'e' in year 't' (expressed in RM)

' $USAL_t$ ' is the updated forecast of total actual electricity sales in year 't' prepared at the time of the calculation of the adjustment (expressed in kWh)

- 5.8. The Revenue-Cap Sales Adjustment adjusts for the annual difference in revenue earned by the individual revenue-cap RBE arising from differences between forecasted and actual sales volumes. The adjustment is calculated according to the following formula:

$$RSL S_{t,rc} = BASE_{P,rc} \times (FSAL_{t-1} - ESAL_{t-1}) \times (1 + WACC_{t-1,rc})$$

Where:

' $ESAL_{t-1}$ ' is the actual total electricity sales in year 't-1' (expressed in kWh). If actual values are not available at the time of the calculation and estimate should be used.

If year 't-1' falls into the preceding Regulatory Period 'P-1' then the Base Average Tariff and WACC for Revenue-Cap RBE 'rc' in the preceding Regulatory Period shall apply in the calculation

- 5.9. The Other Income Adjustment deducts annual income from sources other than electricity sales and customer contributions. The adjustment is calculated according to the following formula:

$$OTHR_{t,e} = - \left(\sum_{m=-12}^{m=-4} OTHA_{m,e} + \sum_{m=-3}^{m=-1} OTHE_{m,e} \right)$$

Where:

' $OTHA_{m,e}$ ' is the actual other income excluding revenues from electricity sales and customer contributions, as allocated to RBE 'e', in month 'm' (expressed in RM)

' $OTHE_{m,e}$ ' is the estimated other income excluding revenues from electricity sales and customer contributions, as allocated to RBE 'e', in month 'm' (expressed in RM)

- 5.10. The Unpredictable Opex Adjustment adjusts for the annual difference between the estimated unpredictable opex included in the RBE's annual revenue requirement and actual unpredictable opex. The adjustment is calculated according to the following formula:

$$UPOX_{t,e} = (UPXE_{t-1,e} - UPXF_{t-1,e}) \times (1 + WACC_{t-1,e})$$

Where:

' $UPXE_{t-1,e}$ ' is Estimated Unpredictable Opex for RBE 'e' in year 't-1':

$$UPXE_{t-1,e} = - \left(\sum_{m=-12}^{m=-4} UPXA_{m,e} + \sum_{m=-3}^{m=-1} UPXE_{m,e} \right)$$

Where:

' $UPXAm,e$ ' is actual unpredictable opex of RBE 'e' in month 'm' (expressed in RM)

' $UPXF_{t-1,e}$ ' is the forecast of unpredictable opex included in the annual revenue requirement of RBE 'e' in year 't-1' (expressed in RM). For the avoidance of doubt, the forecast of unpredictable opex may be set to zero.

Calculation of the Bundled Price-Cap Adjustment

- 5.11. Where the Commission has determined that an allowance for under-recovery should no longer apply in accordance with Section 3.28, then the Price-Cap Adjustment shall be calculated in accordance with the following formula:

$$PCAP_t = \frac{PSLS_t + CONT_{t,cs} + OTHR_{t,cs} + UPOX_{t,cs} + INTR_{t,cs}}{USAL_t}$$

Where:

' $PSLS_{t,rc}$ ' is the Price-Cap Sales Adjustment in year ' t ' (expressed in RM)

- 5.12. The Price-Cap Sales Adjustment adjusts for the annual difference between actual and allowed bundled revenues due to non-compliance with the Price-Cap. The adjustment is calculated according to the following formula:

$$PSLS_t = \min(0, RDIF_t) \times (1 + WACC_{t-1,cs})$$

Where:

' $RDIF_t$ ' is the Price-Cap Revenue Difference in year ' t ' (expressed in RM):

$$RDIF_t = (bALLW_{t-1} - bAVGE_{t-1}) \times ESAL_{t-1}$$

Where:

' $bAVGE_{t-1}$ ' is the Bundled Actual Average Tariff for year ' $t-1$ ' (expressed in sen/kWh):

$$bAVGE_{t-1} = bEREV_{t-1} / ESAL_{t-1}$$

Where:

' $bEREV_{t-1}$ ' is the Estimated Total Bundled Revenues earned from the provision of Regulated Services in year ' $t-1$ ' (expressed in RM):

$$bEREV_{t-1} = \left(\sum_{m=-12}^{m=-4} bAREV_m + \sum_{m=-3}^{m=-1} bEREV_m \right)$$

Where:

' $bAREV_m$ ' is the actual total bundled revenues earned from the provision of Regulated Services in month ' m ' (expressed in RM)

- 5.13. Where an allowance for under-recovery applies in accordance with Section 3.27, then the first term in Section 5.16 shall be replaced with the following formula:

$$\text{If } RDIF_t \leq 0, \text{ then } PSLS_t = \min(0, RDIF_t) \times (1 + WACC_{t-1,cs})$$

$$\text{If } RDIF_t > 0, \text{ then: } PSLS_t = \min(0.025 \times bBASE_p \times$$

$$ESAL_{t-1}, RDIF_t) \times (1 + WACC_{t-1,cs})$$

Process for approving Bundled Allowed Average Tariff

- 5.14. No later than 30 October of each year, TNB shall submit to the Commission the proposed Revenue-Cap Adjustment and Price-Cap Adjustment and the resulting proposed Bundled Allowed Average Tariff to apply for the period from 1 January to 31 December of the following year.
- 5.15. The submission shall include the estimated resulting Bundled Actual Average Revenue and a comparison of this with the proposed Bundled Allowed Average Tariff for the following year.
- 5.16. The Commission will verify the calculated adjustments and accompanying proposed Regulated Tariffs within 15 working days of receipt from TNB.
- 5.17. In case of over-recovery of the calculated adjustment, the amount may be transferred, in full or part, to the Electricity Industry Fund (EIF). EIF is a fund administered and controlled by the Commission to manage the impact of the electricity tariff on consumers.
- 5.18. Where the Commission has identified an error in the calculations submitted by TNB, then TNB shall be required to revise and resubmit their proposed adjustments and proposed Regulated Tariffs and the Commission will have a further 15 working days from receipt of the revised calculations to accept or reject these.
- 5.19. The value of any over-recovery of Allowed Revenues which results from a delay in the approval of the Regulated Tariffs due to errors in their calculation by TNB shall be determined by the Commission and returned to customers in the form of a reduction in Regulated Tariffs for the following year. Any under-recovery due to errors in the calculation by TNB shall not be compensated.
- 5.20. The Commission will adopt the following approval process for any tariff adjustment:
 - (a) If the proposed Bundled Allowed Average Tariff is less than or equal to 7% higher than the Bundled Base Average Tariff, the Commission will approve the proposed adjustments and Regulated Tariffs for the following year.
 - (b) If the proposed Bundled Allowed Average Tariff is greater than 7% higher than the Bundled Base Average Tariff, the Commission will recommend its decision to the Minister for approval.

- 5.21. The Minister may approve a Bundled Allowed Average Tariff and Regulated Tariffs that are different from those recommended by the Commission.
- 5.22. Where approval by the Minister is delayed beyond the start of the following year then the following shall apply:
- (a) Existing Regulated Tariffs shall remain in effect until an approval is issued.
 - (b) The present value of any over-recovery or under-recovery of Allowed Revenues which results from such delay will be determined by the Commission. This shall be calculated as the revenue earned from existing Regulated Tariffs and that would have been earned under the approved Regulated Tariffs for the period of the delay.
 - (c) This difference shall be returned to customers, if an over-recovery, or paid to TNB, if an under-recovery, in the form of a deduction from or an addition to the Regulated Tariffs to be applied for the remainder of the Regulatory Period.
 - (d) If the delay occurs in the last year of the current Regulatory Period, then the adjustment is carried-over to the next Regulatory Period.

END OF SECTION

6. Calculation of the Allowed Average Tariff by RBE

Application of this section

- 6.1. This Section 6 shall apply for the calculation of the Unbundled Allowed Average Tariff where the Minister approves an individual Base Average Tariff for each RBE. Where the Minister approves a Bundled Average Base Tariff for TNB as a whole then the calculation of the Allowed Average Tariff will follow the provisions of Section 5.

Components of the Unbundled Allowed Average Tariff

- 6.2. The Unbundled Allowed Average Tariff is the sum of:
- (a) The Average Generation Cost for the Regulatory Period, as approved by the Minister.
 - (b) The Allowed Average Tariff for each individual RBE, calculated annually and incorporating the Revenue-Cap Adjustment and the Price-Cap Adjustment as applicable.

The Revenue-Cap Adjustments and Price-Cap Adjustment as mentioned above are treated as the Annual Regulatory Adjustment.

- 6.3. The calculation of the Unbundled Allowed Average Tariff is made according to the following formula:

$$uALLW_t = AGEN_p + \sum_{e=1}^E ALLW_{t,e}$$

Where:

' $uALLW_i$ ' is the Unbundled Allowed Average Tariff for RBE 'e' in the year 't' (expressed in sen/kWh)

Calculation of the Base Average Tariff for individual RBE

- 6.4. A Base Average Tariff shall be calculated for each RBE prior to each Regulatory Period as the present value of Annual Revenue Requirements

over the Regulatory Period, divided by the present value of forecasted electricity sales, in accordance with the following formula:

$$BASE_{P,e} = \left[\sum_{t=1}^T \frac{REQT_{t,e}}{(1 + WACC_{P,e})^t} \right] / \left[\sum_{t=1}^T \frac{FSAL_t}{(1 + WACC_{P,e})^t} \right]$$

Calculation of the Average Generation Cost

6.5. **Calculation of the Average Generation Cost.** The Average Generation Cost shall be calculated for Single Buyer Generation prior to each Regulatory Period.

- (a) The Generation Costs shall comprise of two components, which are the energy costs and capacity costs. **Energy costs** are the variable cost of electricity generation, primarily driven by the cost of fuels, including gas, coal, and other sources, used in electricity generation. **Capacity costs** is the fixed cost of electricity generation, primarily driven by the costs associated with maintaining the availability and readiness of generation capacity
- (b) The Average Generation Cost shall be calculated prior to each Regulatory Period as the present value of Forecast Energy Costs and Forecast Capacity Costs as specified in Power Purchase Agreements and Service-Level Agreements over the Regulatory Period, divided by the present value of forecasted electricity sales, in accordance with the following formula:

$$AGEC_P = \left[\sum_{t=1}^T \frac{FGEC_t}{(1 + WACC_{P,SB})^t} \right] / \left[\sum_{t=1}^T \frac{FSAL_t}{(1 + WACC_{P,SB})^t} \right]$$

$$FGEC_t = FEYC_t + FFGC_t$$

Where:

‘t’ is the year in the Regulatory Period

‘AGEC_P’ is the Average Generation Cost for Regulatory Period ‘P’ (expressed in sen/kWh)

‘FGEC_t’ is the Total Forecast Generation Cost for in year ‘t’ (expressed in RM)

‘FEYCT’ is the Total Forecast Energy Cost for Regulatory Period ‘P’ (expressed in RM)

‘FFGCT’ is the Total Forecast Capacity Cost for Regulatory Period ‘P’ (expressed in RM)

- (c) Forecast fuel costs and forecast other generation costs shall be calculated using appropriate power system models and shall be based on the most recent approved planting (generation investment) programme, approved electricity demand forecast, and approved level of efficient system losses as decided by the Planning and Implementation Committee for Electricity Supply and Tariff (JPPPET).
- (d) The Total Forecast Generation Cost may be calculated on a monthly basis for a calendar year and then aggregated to provide the Total Forecast Generation Cost for year ‘t’, or calculated on a yearly basis. The Commission may prescribe the approach.

Calculation of the Allowed Average Revenue for Revenue-Cap RBE

- 6.6. The Allowed Average Revenue for each Revenue-Cap RBE is calculated as the sum of the Base Average Tariff and the Revenue-Cap Adjustment applicable to the RBE, according to the following formula:

$$ALLW_{t,rc} = BASE_{P,rc} + RCAP_{t,rc}$$

- 6.7. The Revenue-Cap Adjustment for each Revenue-Cap RBE shall be calculated in accordance with the following formula:

$$RCAP_{t,rc} = \frac{RSL_{t,rc} + CONT_{t,e} + OTHR_{t,e} + UPOX_{t,e} + INTR_{t,e}}{USAL_t}$$

- 6.8. The Revenue-Cap Sales Adjustment adjusts for the annual difference in revenue earned by the individual revenue-cap RBE arising from differences between forecasted and actual sales volumes. The adjustment is calculated according to the following formula:

$$RSL_{t,rc} = BASE_{P,rc} \times (FSAL_{t-1} - ESAL_{t-1}) \times (1 + WACC_{t-1,rc})$$

- 6.9. The Other Income Adjustment deducts annual income from sources other than electricity sales and customer contributions. The adjustment is calculated according to the following formula:

$$OTHR_{t,e} = - \left(\sum_{m=-12}^{m=-4} OTHA_{m,e} + \sum_{m=-3}^{m=-1} OTHE_{m,e} \right)$$

- 6.10. The Unpredictable Opex Adjustment adjusts for the annual difference between the estimated unpredictable opex included in the RBE's annual revenue requirement and actual unpredictable opex. The adjustment is calculated according to the following formula:

$$UPOX_{t,e} = (UPXE_{t-1,e} - UPXF_{t-1,e}) \times (1 + WACC_{t-1,e})$$

Calculation of the Allowed Average Revenue for Price-Cap RBE

- 6.11. The Allowed Average Revenue for each Price-Cap RBE is calculated as the sum of the Base Average Tariff and the Price-Cap Adjustment, according to the following formula:

$$ALLW_{t,pc} = BASE_{t,pc} + PCAP_{t,pc}$$

Where:

'pc' is an individual Price-Cap RBE

- 6.12. Where the Commission has determined that an allowance for under-recovery should no longer apply in accordance with Section 3.28, then the Price-Cap Adjustment shall be calculated in accordance with the following formula:

$$PCAP_{t,pc} = \frac{PSLS_{t,pc} + CONT_{t,pc} + OTHR_{t,pc} + UPOX_{t,pc} + INTR_{t,pc}}{USAL_t}$$

- 6.13. The Price-Cap Sales Adjustment adjusts for the annual difference between actual and allowed bundled revenues due to non-compliance with the Price-Cap. The adjustment is calculated according to the following formula:

$$PSLS_{t,pc} = \min(0, RDIF_{t,pc}) \times (1 + WACC_{t-1,pc})$$

- 6.14. Where an allowance for under-recovery applies in accordance with Section 3.27, then the first term in Section 6.16 shall be replaced with the following formula:

$$\text{If } RDIF_{t,pc} \leq 0, \text{ then } PSLS_{t,pc} = \min(0, RDIF_{t,pc}) \times (1 + WACC_{t-1,pc})$$

$$\text{If } RDIF_{t,pc} > 0, \text{ then: } PSLS_{t,pc} = \min(0.025 \times bBASE_p \times ESAL_{t-1}, RDIF_{t,pc}) \times (1 + WACC_{t-1,pc})$$

Process for approving Unbundled Allowed Average Tariffs

- 6.15. No later than 30 October of each year, each RBE, either individually or collectively through TNB, shall submit to the Commission the proposed Allowed Average Tariff, including adjustments, for each RBE and the resulting proposed Unbundled Allowed Average Tariff to apply for the period from 1 January to 31 December of the following year.
- 6.16. The submission shall include the estimated resulting Actual Average Revenue by RBE and in total and a comparison of this with the proposed Allowed Average Tariff for each RBE and the Unbundled Allowed Average Tariff for the following year.
- 6.17. The Commission will verify the calculated adjustments and accompanying proposed Regulated Tariffs within 15 working days of receipt.
- 6.18. In case of over recovery of the calculated adjustment, the amount may be transferred, in full or part to the EIF. EIF is a fund administered and controlled by the Commission to manage the impact of electricity tariff on consumers.
- 6.19. Where the Commission has identified an error in the calculations submitted, then the RBE concerned will be required to revise and resubmit their proposed adjustments and proposed Regulated Tariffs and the Commission will have a further 15 working days from receipt of the revised calculations to accept or reject these.

- 6.20. The value of any over-recovery of Allowed Revenues which results from a delay in the approval of the Regulated Tariffs due to errors in their calculation by the RBE will be determined by the Commission and returned to customers in the form of a reduction in Regulated Tariffs for the following year. Any under-recovery due to errors in the calculation by TNB shall not be compensated.
- 6.21. The Commission will adopt the following approval process for any tariff adjustment:
- (a) If the proposed Unbundled Allowed Average Tariff is less than or equal to 7% higher than the sum of the Average Generation Cost and of the Base Average Tariffs for each individual RBE, the Commission will approve the proposed adjustments and Regulated Tariffs for the following year.
 - (b) If the proposed Unbundled Allowed Average Tariff is greater than 7% higher than the sum of the Average Generation Cost and of the Base Average Tariffs for each individual RBE, the Commission will recommend its decision to the Minister for approval.
- 6.22. The Minister may approve Allowed Average Tariffs for each individual RBE and Regulated Tariffs that are different from those recommended by the Commission.
- 6.23. Where approval by the Minister is delayed beyond the start of the following year then the following shall apply:
- (a) Existing Regulated Tariffs shall remain in effect until an approval is issued.
 - (b) The present value of any over-recovery or under-recovery of Allowed Revenues which results from such delay will be determined by the Commission. This will be calculated as the revenue earned from existing Regulated Tariffs and that would have been earned under the approved Regulated Tariffs for the period of the delay.
 - (c) This difference shall be returned to customers, if an over-recovery, or paid to the affected RBE, if an under-recovery, in the form of a deduction from or an addition to the Regulated Tariffs to be applied for the remainder of the Regulatory Period.

- (d) If the delay occurs in the last year of the current Regulatory Period, then the adjustment is carried-over to the next Regulatory Period.

END OF SECTION

7. Automatic Fuel Adjustment (AFA)

Principles of the AFA

- 7.1. The Automatic Fuel Adjustment (AFA) enables the recovery of actual generation costs, by adjusting for differences between the Actual Generation Cost and the Allowed Generation Cost on a monthly basis.
- 7.2. For the generation cost component, Single Buyer operates under an Actual Cost regime. The Actual Cost regime implies that Single Buyer is able to recover its actual costs of procuring electricity from IPPs and TNB Generation.
- 7.3. For the avoidance of doubt, generation costs will only be adjusted through the AFA mechanisms and shall not be involved in other adjustment mechanisms.

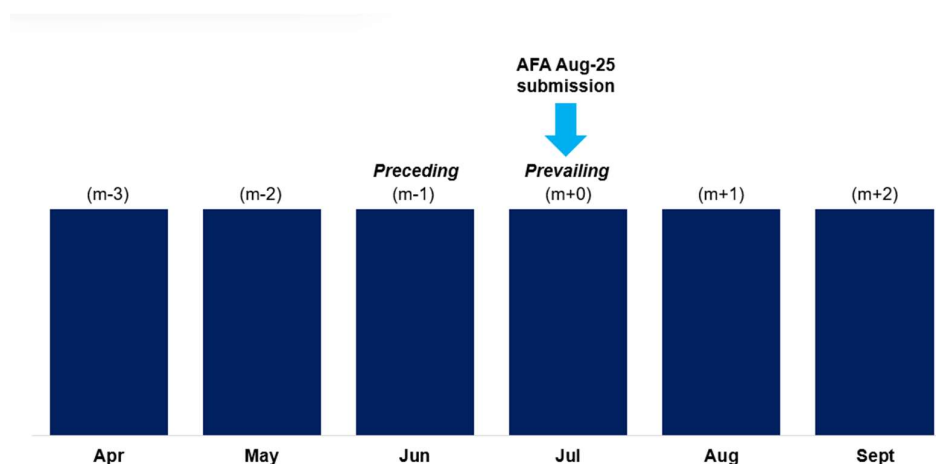
Application of the AFA

- 7.4. The AFA will be calculated and applied on a monthly basis, using calendar months (ie from the first day of each calendar month until the last day in each month). The frequency on which it is calculated and applied may be revised or altered subject to the Ministerial decision.
- 7.5. For the avoidance of doubt, the AFA will be calculated regardless of which Regulatory Period the prior months fall in.
- 7.6. The AFA will consist of the following components:
 - (a) **Monthly forward forecast AFA (RM and sen/kWh):** Calculates the difference between the Allowed Energy Charge for the following month (m+1) and the Updated Forecast Energy Charge for the following month (m+1)
 - (b) **Monthly Energy Cost true-up adjustment (RM and sen/kWh):** Calculates the difference between the Forecast Energy Cost Pass-Through and the Actual Energy Cost for the preceding month (m-3) including changes in the forecast and the actual electricity sales volumes in kWh.

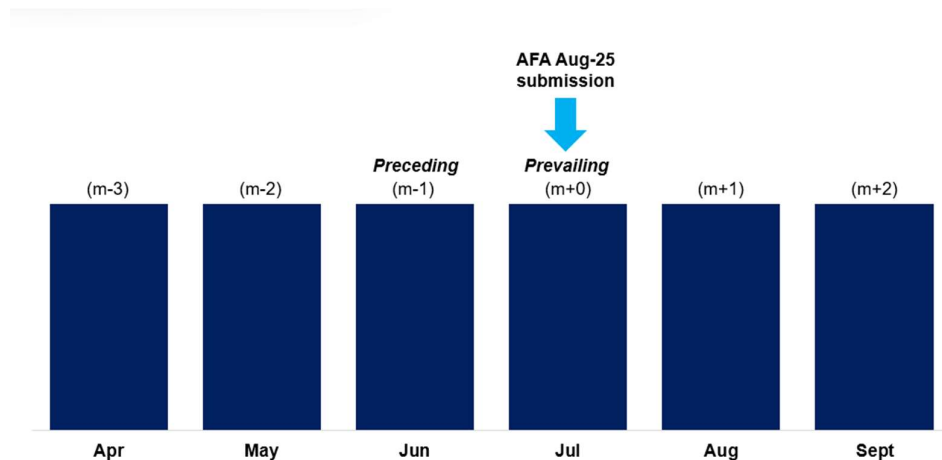
- (c) **Monthly Capacity Cost true-up adjustment (RM and sen/kWh):**
Calculates the difference between the Capacity Charge Passed-Through and Actual Capacity Charge for the preceding month (m-3) including changes in the forecast and actual electricity sales volume in kWh.
- (d) **Other Generation Cost true-up adjustment (RM and sen/kWh):**
Includes non-compliance charges to generators, fuel price adjustments and other generation related costs/savings.

7.7. The AFA will be expressed as an Energy Charge Adjustment, expressed in sen/kWh. It will be applied automatically to customer energy bills in the form of a surcharge or rebate to the published Energy Charges (sen/kWh) applicable to each customer.

7.8. If the calculated AFA is positive and does not exceed 10% of the Allowed Generation Tariff for the prevailing month (m+0), the application of the AFA shall be administered by the Commission and does not require Ministerial approval as illustrated below.



7.9. If the calculated AFA is positive and exceeds 10% of the Allowed Generation Tariff for the prevailing month (m+0), the application of the AFA will require approval from the Minister as illustrated below.



- 7.10. All decisions on AFA charges to customers are guided by existing policies and procedures; however, adjustments may be made at the discretion of the government when necessary.
- 7.11. The application of the Energy Charge Adjustment associated with AFA to customer bills will be guided by existing policies and procedures. Notwithstanding this, the Minister reserves the right to make adjustments as necessary.

Calculation of the AFA

- 7.12. The AFA will be calculated according to the following formula:

$$AFA_{m+1} = (FFAFA_{m+1} + TRUEC_{m-3} + TRUCC_{m-3} + TRUOGC) / FQUS_{m+1}$$

Where:

'm' is a calendar month and is expressed in relation to the month in which the AFA takes effect. For example, if the AFA is to take effect in January 2026, then 'm+0' means the month before this or December 2025

'AFA_{m+1}' is the Automatic Fuel Adjustment for the month 'm' (expressed in sen/kWh)

'FFAFA_{m+1}' is the monthly Forward Forecast Automatic Fuel Adjustment for the month 'm+1' (expressed in RM)

'TRUE_{m-3}' is the monthly Energy Cost True-Up Adjustment for the month 'm-3' (expressed in RM)

'TRUCC_{m-3}' is the monthly Capacity Cost True-Up Adjustment for the month 'm-3' (expressed in RM)

'TRUOGC' is any non-compliance charges to generators, fuel price adjustments and other generation related costs/savings' (expressed in RM)

'FQUS_{m+1}' is the Forecast Qualifying Sales for AFA, for the month 'm+1' (expressed in kWh).

7.13. The Forward Forecast AFA will be calculated according to the following formula:

$$FFAFA_{m+1} = ((UECF_{m+1}/FQUS_{m+1}) - BEC) * FQUS_{m+1}$$

Where:

'UECF_{m+1}' is the Updated Forecast Energy Cost for month 'm+1' (expressed in RM).

'BEC' is the Base Energy Charge for the Regulatory Period (expressed in sen/kWh).

7.14. The Energy Cost True-Up Adjustment will be calculated according to the following formula:

$$TRUE_{m-3} = [((ECa_{m-3} / AQU_{m-3}) - BEC) * AQU_{m-3}] - AFAPST_{m-3} \\ * (1 + ARR_{m-3})$$

Where:

'ECa_{m-3}' is the Actual Energy Cost, for month m-3 (expressed in RM).

'AQU_{m-3}' is the Actual Qualifying Sales for month m-3 (expressed in kWh).

'AFAPST_{m-3}' is the Automatic Fuel Adjustment Passed-Through, for month m-3 (expressed in sen/kWh).

'ARR_{m-3}' is the Adjustment Remuneration Rate for month m-3 (expressed in percentage).

7.15. The Capacity Cost True-Up Adjustment will be calculated according to the following formula:

$$TRUCC_{m-3} = [((CCa_{m-3}/SALEa_{m-3}) - CCPST_{m-3}) * AQUSt_{m-3}] * (1 + ARR_{m-3})$$

Where:

'CCa_{m-3}' is the Actual Capacity Cost for month m-3 (expressed in RM).

'CCPST_{m-3}' is the Capacity Charge Passed-Through for month m-3 (expressed in sen/kWh).

- 7.16. Where input parameters to the AFA have been determined on an annual basis, they shall be converted to monthly values on the basis of the number of days in the relevant month and the number of days in the relevant year.
- 7.17. Qualifying sales are the sales to those tariff categories who are liable for the AFA, as determined by the Minister and/or the Commission.
- 7.18. The Adjustment Remuneration Rate is equal to the most recent One-Month Interbank Rate reported by Bank Negara Malaysia plus 1.5 percentage points, converted to a monthly rate.

Process for the approval of the AFA

- 7.19. Single Buyer shall submit a preliminary AFA rates to the Commission no later than the 10th calendar day of each month.
- 7.20. Single Buyer shall submit the AFA proposals together with six (6) months rolling AFA forecast to the Commission no later than the 15th calendar day of each month. In the event that 15th calendar day falls on weekend or public holiday, Single Buyer shall submit the AFA and the six (6) months rolling AFA forecast to the Commission on the next business day.
- 7.21. The AFA Proposal shall include the following components:
 - a) **A detailed calculation of the Updated Forecast Generation Costs** for the following month (m+1), including:
 - i) Forecast energy costs (in RM);
 - ii) Forecast fuel costs used in the calculation (in RM) based on forecast fuel prices and foreign exchange rate;

- iii) Forecast qualifying electricity sales used in the calculation (in kWh);
- iv) Resultant energy charge (in sen/kWh); and
- v) AFA (in sen/kWh).

b) A detailed calculation of the Actual Generation Costs for the preceding month (m-3), including:

- i) Actual energy costs (in RM);
- ii) Actual capacity costs (in RM) incurred by Single Buyer under the Power Purchase Agreement (PPA) and Service Level Agreement (SLA);
- iii) Actual fuel costs used in the calculation (in RM) based on actual declared fuel prices and foreign exchange rate;
- iv) Actual qualifying electricity sales used in the calculation (in kWh);
- v) Actual revenue related to generation costs received from Customer Services in the preceding month (m-3); and
- vi) Resultant energy charge (in sen/kWh).

c) An explanation of any variances between the Allowed Generation Costs and the Updated Forecast Generation Costs for the following month (m+1), and of any variances between the Actual Generation Costs and the Updated Forecast Generation Costs for the preceding month.

- 7.22. The Commission will verify the AFA Proposal starting from the next working day after receiving the Single Buyer's submission. The Commission shall issue its verification no later than the 28th of the current month and for February, it is no later than the 25th.
- 7.23. In the event a Ministerial decision is required, the Commission will submit its recommendation to the Ministry within five (5) working days starting from the next working day after the receipt of Single Buyer's submission. The Ministry may then review and issue its decision within five (5) working days starting from the next working day after receiving the Commission's recommendations.

- 7.24. Customer Services should conduct a system check and verify their system readiness no later than the 28th of the current month and for February, it is no later than the 25th.
- 7.25. The AFA for the following month (m+1) to be applied to customer bills shall be publicly announced and published by the Customer Services and the Commission on their respective websites, no later than the last Friday before the start of the subsequent month. Single Buyer shall publish the coal prices, gas prices and foreign exchange forecast for the following months (m+1, m+2, m+3 and m+4).
- 7.26. Any over-recovery or under-recovery of Single Buyer's Allowed Revenues resulting due to the delay in the approval of the AFA due to errors in calculation by the Single Buyer or restrictions in approval timeline shall be determined by the Minister. Any such amount may be returned to customers through the AFA mechanism in the subsequent applicable month(s) as directed. However, any under-recovery due to calculation errors by the Single Buyer shall not be eligible for compensation.
- 7.27. If the verification by the Commission or the decision by the Minister is delayed beyond the stipulated timeline in 7.22 and 7.23, the following shall apply:
- (a) The AFA rate at 10% of the Allowed Generation Tariff shall apply for the prevailing month (m+0) and shall remain in effect until the decision is issued by the Minister.
 - (b) The present value of any over-recovery or under-recovery of the AFA resulting from such delay shall be applied accordingly.
 - (c) The resulting difference shall be adjusted through the AFA mechanism in the subsequent applicable month(s), as directed.
- 7.28. If the delay occurs in the final month of the current Regulatory Period, the adjustment shall be carried over to the next Regulatory Period.
- 7.29. Periodical reviews and validations of the AFA and associated calculations may also be carried out, as when deemed necessary by the Commission or the Government. This may involve the requirement for a third-party auditor, to be appointed by Single Buyer and approved by the Commission, to audit the calculations.

- 7.30. Should the periodical review highlight any material errors, the Commission will calculate the resulting difference and apply this as an additional adjustment to the calculated AFA for the following month.

END OF SECTION

8. Annual Revenue Requirement

Principles of the Annual Revenue Requirement

- 8.1. The Annual Revenue Requirement represents the maximum allowed revenues (before adjustments) that a RBE can charge to recover the reasonable and efficient costs (including a fair return on capital) of providing the Regulated Services in each year of a Regulatory Period.
- 8.2. The Annual Revenue Requirement is calculated individually for each RBE and for each year within each Regulatory Period. The sum of the Annual Revenue Requirements by RBE is then levelised to obtain the Base Average Tariff for the individual RBE in the Regulatory Period. The sum of these individual RBE Base Average Tariffs are then used to obtain the TNB Base Average Tariff for the Regulatory Period.
- 8.3. The Annual Revenue Requirement is calculated using a 'building-block' methodology, whereby the total revenue is calculated as the sum of operating costs, depreciation, a return on capital and a tax allowance, plus adjustments.
- 8.4. All calculations are conducted in nominal terms.

Application of the Annual Revenue Requirement

- 8.5. The revenue limits set by the Annual Revenue Requirement apply to the sum of revenues received from both electricity tariffs and other consumer charges:
 - (a) Revenues from electricity tariffs paid by consumers for the supply of electricity typically (although not necessarily) consist of some or all the following - a fixed customer service charge (RM/month), an energy charge (or multiple energy charges) for metered electricity consumption (sen/kWh), and a demand charge (RM/kW).
 - (b) Revenues from other consumer charges include, without limitation, connected load charges, power factor penalties, welding penalties, temporary supply charges, and individual street lighting charges. Revenues from such other charges must be netted off when designing the end-use consumer electricity tariffs.

- 8.6. For the avoidance of doubt, the Annual Revenue Requirement applies to the Single Buyer Operations and all other RBEs, namely, Transmission, Grid System Operator, Distribution Network and Customer Service.

Calculating the Annual Revenue Requirement

- 8.7. The Annual Revenue Requirement for all RBEs, except for the Customer Services RBE, shall be calculated according to the following formula:

$$REQT_{e,t} = OPEX_{e,t} + JOIN_{e,t} + WORK_{e,t} + RTOC_{e,t} + DEPN_{e,t} + \max(0, TAXZ_{e,t}) + ECSO_{e,t} + ECSX_{e,t} + SERV_{e,t}$$

Where:

' $REQT_{e,t}$ ' is the Annual Revenue Requirement for an individual RBE 'e'

' $OPEX_{e,t}$ ' is the allowed operating expenditures of the RBE in year 't' and which may include an estimate of Unpredictable Opex

' $JOIN_{e,t}$ ' are allocated Joint and Common Costs in year 't' associated with corporate services provided by TNB to the RBE forming part of TNB

' $WORK_{e,t}$ ' is the cost of Working Capital Requirement of the RBE in year 't'

' $RTOC_{e,t}$ ' is the allowed return on capital of the RBE in year 't':

$$RTOC_{e,t} = \left(RAB_{e,t-1} + 0.5 \times (CPEX_{e,t} - DISP_{e,t}) \right) \times WACC_{e,t}$$

Where:

' $RAB_{e,t-1}$ ' is the closing allowed Regulated Asset Base of the RBE at the end of year 't-1' (which is equivalent to the opening Regulated Asset Base for year 't')

' $CPEX_{e,t}$ ' represents forecast prudent and efficient capital expenditure that is incurred by the RBE in year 't', as set out in the approved investment plan

' $DISP_{e,t}$ ' represents the net value of fixed assets of the RBE disposed of during year 't'

' $WACC_e$ ' is the allowed Weighted Average Cost of Capital of the RBE

' $DEPN_{e,t}$ ' is the allowance for depreciation of the RBE in year 't'

'TAXZe,t' is the Corporate Tax and Zakat Allowance of the RBE in year 't' and cannot be negative

'ECSoe,t' is the allowed operating expenditures Efficiency Carry-Over Scheme adjustment of the RBE in year 't'

'ECSXe,t' is the allowed capital expenditures Efficiency Carry-Over Scheme adjustment of the RBE in year 't'

'SERVe,t' is the Quality of Service Incentives adjustment (or penalty if negative) of the RBE applied in year 't' which results from performance against quality of service targets in the preceding Regulatory Period

- 8.8. The Annual Revenue Requirement for the Customer Services RBE shall be calculated according to the following formula:

$$\begin{aligned} REQT_{cs,t} = & OPEX_{cs,t} + JOIN_{cs,t} + MRGN_{cs,t} + ECSo_{cs,t} + ECSX_{cs,t} \\ & + SERV_{cs,t} \end{aligned}$$

Where:

'cs' is the Customer Services RBE

' $REQT_{cs,t}$ ' is the Annual Revenue Requirement for the Customer Services RBE

' $OPEX_{cs,t}$ ' is the allowed operating expenditures of the Customer Services RBE in year 't' and which may include an estimate of Unpredictable Opex

' $JOIN_{cs,t}$ ' are allocated Joint and Common Costs in year 't' associated with corporate services provided by TNB to the Customer Services RBE forming part of TNB

' $MRGN_{cs,t}$ ' is the Allowed Retail Margin of the Customer Services RBE in year 't':

' $ECSo_{cs,t}$ ' is the allowed operating expenditures Efficiency Carry-Over Scheme adjustment of the Customer Services RBE in year 't'

' $ECSX_{cs,t}$ ' is the allowed capital expenditures Efficiency Carry-Over Scheme adjustment of the Customer Services RBE in year 't'

' $SERV_{cs,t}$ ' is the Quality of Service Incentives adjustment (or penalty if negative) of the Customer Services RBE applied in year 't' which results from performance against quality of service targets in the preceding Regulatory Period

- 8.9. If the Customer Services RBE is in significant competition with other retail electricity business(es), then the Allowed Retail Margin will be set with reference to profit margins earned by comparable retail energy businesses other jurisdictions and determinations made by regulators in other jurisdictions on retail margins in the context of default tariffs.
- 8.10. If the Customer Services RBE is not in significant competition with other retail electricity business(es), then the Allowed Retail Margin will be set according to the following formula:

$$MRGN_{cs,t} = RTOC_{cs,t} + DEPN_{cs,t} + WORK_{cs,t} + \max(0, TAXZ_{cs,t})$$

Where:

' $RTOC_{cs,t}$ ' is the allowed return on capital of the Customer Services RBE in year 't':

$$RTOC_{cs,t} = \left(RAB_{cs,t-1} + 0.5 \times (CPEX_{cs,t} - DISP_{cs,t}) \right) \times WACC_{cs,t}$$

Where:

' $RAB_{cs,t-1}$ ' is the closing allowed Regulated Asset Base of the Customer Services RBE at the end of year 't-1' (which is equivalent to the opening Regulated Asset Base for year 't')

' $CPEX_{cs,t}$ ' represents forecast prudent and efficient capital expenditure that is incurred by the Customer Services RBE in year 't', as set out in the approved investment plan

' $DISP_{cs,t}$ ' represents the net value of fixed assets of the Customer Services RBE disposed of during year 't'

' $WACC_{cs}$ ' is the allowed Weighted Average Cost of Capital of the Customer Services RBE

' $DEPN_{cs,t}$ ' is the allowance for depreciation of the Customer Services RBE in year 't'

' $WORK_{cs,t}$ ' is the cost of Working Capital Requirement of the Customer Services RBE in year 't'

' $TAXZ_{cs,t}$ ' is the Corporate Tax and Zakat Allowance of the Customer Services RBE in year 't' and cannot be negative

- 8.11. The determination of the individual components of the Annual Revenue Requirement are described in Sections 10 to 18 of these Guidelines.
- 8.12. The calculations made by the RBEs must be undertaken using a Revenue Requirements Model that is approved by the Commission and is published on the Commission's website (with confidential information redacted). The RBEs must ensure that all inputs and calculations in the Revenue Requirements Model are verifiable and consistent with the requirements of these Guidelines.

END OF SECTION

9. Approving Revenue Requirements and Base Average Tariffs

Objective of Regulatory Reviews

- 9.1. The Commission will conduct a Regulatory Review for each RBE in advance of the start of the next Regulatory Period. The objective of the Regulatory Review is to determine the RBE Base Tariff, RBE Allowed Revenue, Generation Base Tariff (if applicable to the RBE), and Base Tariff Table (if applicable to the RBE) for the next Regulatory Period.
- 9.2. The Regulatory Reviews of RBEs may be carried out concurrently, or separately if their Regulatory Periods differ.

Regulatory Review process (in sequence)

- 9.3. In advance of an RBE submitting its Regulatory Proposal, the Commission may issue an RBE Allowed Revenue Model, which will be used by the RBE to calculate its proposed RBE Allowed Revenue and RBE Base Tariff in each year of the next Regulatory Period.
- 9.4. All inputs and calculations in the RBE Allowed Revenue Model shall be verified by RBE and shall consistent with the requirements of these Guidelines.
- 9.5. In submitting its Regulatory Proposal, any changes made by the RBE to the RBE Allowed Revenue Model must be clearly stated and justified.
- 9.6. In advance of the RBE submitting its Regulatory Proposal, the Commission may also issue specific information requests to the RBE, which specify information and the format of that information that the Commission requests be included in the RBE's Regulatory Proposal.
- 9.7. The RBE will submit to the Commission a Regulatory Proposal for the provision of Regulated Services for the next Regulatory Period, in accordance with these Guidelines.
- 9.8. Upon reviewing the RBE's Regulatory Proposal, the Commission may require the RBE to provide additional information and documents that the Commission thinks necessary. Any further information provided by the RBE should not modify its proposed Allowed Revenue or Base Tariff, but only to rectify any identified error.

- 9.9. The Commission may submit to the RBE its Draft Determination of the RBE Allowed Revenue, RBE Base Tariff, Generation Base Tariff (if applicable), and Base Tariff Table (if applicable). The Draft Determination will explain the reasons for any differences between the RBE's Regulatory Proposal and the Commission's Draft Determination.
- 9.10. If the RBE wants to review the Commission's Draft Determination, the RBE shall submit to the Commission its Revised Regulatory Proposal. There are no requirements on the RBE regarding the content of the Revised Regulatory Proposal, however to the extent that it does not contain updated information on any matter, then the Commission may rely on the Regulatory Proposal in making its Final Determination.
- 9.11. The Commission will submit to the Minister for approval its recommended Final Determination of the RBE Base Tariff, RBE Allowed Revenue, Generation Base Tariff (if applicable), and Base Tariff Table (if applicable). The Final Determination will include:
- (a) a summary of comments received from the RBE and from stakeholders, if applicable, on the Draft Determination and the Commission's responses to these comments;
 - (b) an explanation of the reasons for differences between the RBE's Revised Regulatory Proposal and the Commission's Final Determination; and
 - (c) an explanation of the reasons for differences between the Commission's Draft Determination and Final Determination.
- 9.12. Prior to the commencement of the next Regulatory Period, the Minister will approve RBE Base Tariffs and a Generation Base Tariff for the Regulatory Period, either individually for each RBE or as a bundled tariff. The approved tariffs may or may not differ from those recommended by the Commission.
- 9.13. If the Minister approves a bundled average tariff that differs from the sum of the RBE Base Tariffs and Generation Base Tariff recommended by the Commission, the Commission may revise its recommendation to ensure that it equals the bundled average tariff approved by the Minister.
- 9.14. Following the Minister's approval of the Final Determination, the Commission may submit the approved Final Determination to the RBE.

Regulatory Review timetable

- 9.15. The Commission may publish the timetable and process for conducting a Regulatory Review, in accordance with these Guidelines, no later than 20 months prior to the start of the next Regulatory Period.
- 9.16. The timetable of each Regulatory Review will conform with the following timeframes:
- (a) If the Commission issues an RBE Allowed Revenue Model and/or specific information requests to each RBE, the Commission may do so no later than 18 months prior to the start of the next Regulatory Period.
 - (b) Each RBE will submit its Regulatory Proposal to the Commission no later than 15 months prior to the start of the next Regulatory Period.
 - (c) The Commission may submit its Draft Determination to each RBE no later than 6 months prior to the start of the next Regulatory Period.
 - (d) Each RBE will submit its Revised Regulatory Proposal to the Commission no later than 5 months prior to the start of the next Regulatory Period.
 - (e) The Commission may submit its Final Determination to the Minister for approval no later than 2 months prior to the start of the next Regulatory Period.

Stakeholder consultation during a Regulatory Review

- 9.17. When the Commission publishes its timetable and process for conducting a Regulatory Review, the Commission may notify each RBE whether the Regulatory Review will include consultation with stakeholders, and if so, will notify each RBE of the protocol for doing so.
- 9.18. The stakeholder consultation protocol may include, but is not limited to, specification of:
- (a) the format and extent of the RBE's Regulatory Proposal to be published.

- (b) the format and extent of the Commission's Draft and Final Determinations to be published.
- 9.19. The timeframes, formats, and processes that will be made available to stakeholders to provide comments on information that is published as part of the Regulatory Review.
- 9.20. Any submissions received by the Commission from stakeholders will be provided to the applicable RBE(s), unless the person who submitted it identifies it as confidential.
- 9.21. Where the Regulatory Review includes consultation with stakeholders as referred to in section 9.16, each RBE shall submit a version of the Regulatory Proposal that the RBE clearly verified as being suitable for the Commission to publish when each RBE submits its Regulatory Proposal to the Commission
- 9.22. At a minimum, the published version of the Regulatory Proposal may include:
 - (a) a summary of the Regulatory Proposal, the purpose of which is to explain it in reasonably plain language to electricity customers and other stakeholders.
 - (b) the RBE's proposed RBE Base Tariff for the next Regulatory Period, comparing it with the current RBE Base Tariff and RBE Allowed Tariff.
 - (c) the RBE's proposed RBE Allowed Revenue for the next Regulatory Period, comparing it with the current RBE Allowed Revenue and an explanation of any material differences between them.
 - (d) a description of how, in preparing the Regulatory Proposal, the RBE has sought to understand and take account of the needs and preferences of customers and other stakeholders.
 - (e) a description of the key risks and benefits of the RBE's Regulatory Proposal for electricity customers.
 - (f) in the case of Single Buyer, its proposed Generation Base Tariff for the next Regulatory Period, comparing it with the current Generation Allowed Tariff and an explanation of any material differences between them.

- (g) in the case of Customer Services, its proposed Base Tariff Table for the next Regulatory Period, comparing it with the current Base Tariff Table, an explanation of any material differences between them, and an assessment of affordability impacts on domestic customers.
- 9.23. At a minimum, the published version of the Draft Determination may include a comparison between the tariffs proposed by each RBE and the tariffs that the Commission determines, together with a transparent summary of the reasons for any differences.
- 9.24. The Final Determination, or a version of it, may only be published following the Minister's approval. At a minimum, the published version of the Final Determination may include a comparison between the tariffs proposed by the RBE in its Regulatory Proposal and in its Revised Regulatory Proposal, the tariffs that the Commission determined in its Draft Determination and in its Final Determination, together with a transparent summary of the reasons for its Final Determination.
- 9.25. For the avoidance of doubt, the Commission's transparent summary may differentiate between its recommendations to the Minister and the final tariffs approved by the Minister. The Commission is not obliged to justify the tariffs approved by the Minister, to the extent that they differ from those recommended by the Commission.

Stakeholder consultation prior to a submission of a Regulatory Proposal

- 9.26. Each RBE will establish and implement a fit-for-purpose process for obtaining stakeholder input on matters relevant to the provision of the Regulated Services, which is carried out during each Regulatory Period and used to inform the preparation of the RBE's Regulatory Proposal.
- 9.27. For the avoidance of doubt, each RBE will establish and implement this process regardless of whether the next Regulatory Review will include consultation with stakeholders.
- 9.28. The process for obtaining stakeholder input prior to a submission of a Regulatory Proposal will include:
- (a) identifying matters that are likely to be of interest to stakeholders, including those matters that affect the nature, quality, and price of Regulated Services.

- (b) establishing pro-active processes for obtaining input from stakeholders on such matters throughout each Regulatory Period and to provide a vehicle for stakeholders to provide input on any other matters that stakeholders consider relevant. Without limitation, the mechanisms for obtaining such input may involve:
 - (i) stakeholder forums.
 - (ii) establishing and facilitating customer reference / advocacy groups.
 - (iii) publication of 'issues papers' on specific topics.
 - (iv) published open requests for stakeholders to provide submissions.
- (c) publishing the substance of stakeholder views including through direct publication of public submissions provided to the RBE and/or through publication of summaries, minutes or other records that provide an accessible, reasonable, and balanced representation of such stakeholder input, and through inclusion of relevant input in the published version of the Regulatory Proposal, if applicable.

9.29. To the extent that such matters involve several RBEs, processes for obtaining stakeholder inputs may be managed jointly by RBEs.

Contents of a Regulatory Proposal

9.30. The Regulatory Proposal of each RBE will include the RBE's proposed RBE Allowed Revenue and RBE Base Tariff for each year of the next Regulatory Period.

9.31. The Regulatory Proposal of each RBE will:

- (a) comply with the requirements of and demonstrate conformance with these Guidelines.
- (b) include detailed calculations of the proposed RBE Allowed Revenues, RBE Base Tariff, Generation Base Tariff (if applicable), and Base Tariff Table (if applicable) and must include a detailed description, including relevant explanatory material, of how the RBE has calculated its proposed revenues and tariffs.

- (c) describe input received from customers and other stakeholders on matters relevant to the proposal.
 - (d) include a business plan, or a document or material providing similar content to that of a business plan, of a duration at least equal to that of the next Regulatory Period, from which RBE Allowed Revenues are derived. This is in accordance with the obligations of licensees under the Electricity Supply Act 1990 [Act 447].
- 9.32. The Regulatory Proposal of Single Buyer will include its proposed Generation Base Tariff and justification of its proposed Forecast Generation Costs.
- 9.33. The Regulatory Proposal of Customer Services will include its proposed Base Tariff Table and the following supporting information:
- (a) the estimated cost of service based on voltage level and classified into demand, customer and energy related costs and an explanation of the estimates including data used and methodologies applied. These methodologies may follow any individual or combination of internationally accepted approaches including, but not limited to, the use of long-run marginal cost estimates and of embedded cost estimates. The chosen methodology will be clearly justified and include an explanation of the implications of choosing that methodology over alternatives.
 - (b) an assessment of the impact of changes to the Base Tariff Table on customer bills, including an assessment of affordability impacts on domestic customers.
 - (c) justification of the proposed Base Tariff Table showing that it meets the principles set out in these Guidelines. The accompanying justification must also explain any changes from the current Base Tariff Table.
- 9.34. Even if not explicitly requested by the Commission, the Regulatory Proposal of each RBE may contain any such further information which might assist the Commission with its determination. This may include:
- (a) expenditure trend information and information on expenditure drivers;
 - (b) expenditure variance information;

- (c) benchmarking and productivity assessments;
- (d) KPI performance trend information;
- (e) references, to the extent that they are relevant, to forecast parameters or methods used by comparable business entities under IBR regimes in Malaysia or in other jurisdictions;
- (f) evidence to support demand forecasts;
- (g) evidence of existing compliance obligations or changes to such obligations of the RBE; and
- (h) evidence to support parameters used in deriving the proposed Allowed Rate of Return.

Submission of proposed RBE tariffs to Customer Services

- 9.35. For the purpose of Customer Services proposing the Base Tariff Table as part of its Regulatory Proposal and Revised Regulatory Proposal, all RBEs will submit to Customer Services their proposed RBE Base Tariffs and RBE Allowed Revenues, or close estimates thereof, for Customer Service's next Regulatory Period. The RBEs will also submit proposed values for each of the components of their RBE Allowed Revenue, as set out in these Guidelines. Customer Services will treat all such submissions as confidential.
- 9.36. RBEs will make their submissions to Customer Services no later than 30 days prior to the date on which Customer Services must submit its Regulatory Proposal and Revised Regulatory Proposals to the Commission.

Criteria for the Commission making its determinations

- 9.37. In making its Draft Determination and Final Determination for each RBE, the Commission may have regard to the following:
- (a) these Guidelines, including the objectives of the IBR framework;
 - (b) the information included in or accompanying the Regulatory Proposal and Revised Regulatory Proposal;

- (c) Any further information that the RBE may provide at its discretion or in response to written requests from the Commission;
- (d) written submissions from stakeholders received by the Commission in response to invitations for comment; and
- (e) any analysis undertaken by or for the Commission that is published prior to the making of the determination or as part of the determination.

9.38. When making a Draft Determination, or Final Determination, the Commission may determine whether a Regulatory Proposal or Revised Regulatory Proposal meets the objectives of the IBR framework and the requirements set out in the Guidelines.

Consideration of long-term sustainability

9.39. In making its Draft Determination and Final Determination for each RBE, the Commission may also have regard to whether the RBE Base Tariff is consistent with the RBE maintaining an investment-grade credit rating.

9.40. In assessing this, the Commission may have regard to criteria typically applied by ratings agencies. These may include, but are not limited to, evaluating forecasts of the following indicators for the next Regulatory Period:

- (a) Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) interest coverage;
- (b) Funds From Operations (FFO) to debt; and
- (c) Total net debt to total capital (gearing ratio).

9.41. Where the Commission considers that the RBE may not be able to maintain an investment-grade credit rating, the Commission may make adjustments to RBE Allowed Revenues to address this concern, including but not limited to the application of accelerated depreciation allowances and the deferral of capital expenditures.

9.42. For the avoidance of doubt, any assessment of whether the RBE can maintain an investment-grade credit rating and subsequent adjustments will not override determinations made on the Allowed Rate of Return.

Reasons for the Commission's determination

9.43. The Commission may provide and publish reasons for the Draft Determination, and Final Determination. The Commission may include the following:

- (a) reasons for finding that the determination should be made as proposed; or
- (b) constituent decisions that relate to each of the components of the RBE Allowed Revenue, on which the determination is predicated.

9.44. On making a Draft Determination, the Commission may use its best endeavours to make available to the RBEs any analysis undertaken by or for it on which it has relied as reasons for its determination.

9.45. The reasons given by the Commission for a Draft Determination or Final Determination may set out the basis and rationale of the determination, including:

- (a) details of the qualitative and quantitative methods applied in any calculations and formulae made or used by the Commission, including whether the Commission has substantially adopted the methods proposed by the RBE and the Commission's rationale for adopting any alternative methods.
- (b) the values adopted by the Commission for each of the input variables in any calculations and formulae, including:
 - (i) whether those values have been taken or derived from the RBE's Regulatory Proposal or Revised Regulatory Proposal.
 - (ii) if not, the Commission's rationale for the adoption of alternative values.
- (c) details of any assumptions made by the Commission in undertaking any material qualitative and quantitative analyses; and
- (d) reasons for the making of any determinations, the giving or withholding of any approvals, and the exercise of any discretions as referred to in these Guidelines, for the purposes of the determination, such reasons being expressed by reference to the

requirements relating to such determinations, approvals, or discretions as are contained in these Guidelines and consistent with the objectives of the IBR framework.

END OF SECTION

10. Determining operating expenditures

Forecasting and assessing operating expenditures

- 10.1. Each RBE and (where corporate costs are shared with a parent, holding or other related entity) each related corporate entity shall forecast its efficient operating and maintenance expenditure that is attributable to the Regulated Services of the individual RBE in each year of the Regulatory Period, excluding any financing costs or taxation on profits or any unreasonable or inflated margin earned by a related entity.
- 10.2. In determining whether forecast operating and maintenance expenditure is efficient, the Commission will consider, among other things, the scope for reasonable productivity improvements having regard to:
- 10.3. The historical rates of productivity improvement achieved by the RBE.
 - (a) Assessments made for other RBE and for other regulated infrastructure providers in Malaysia.
 - (b) Assessments made by other regulatory authorities for similar businesses in countries with similar incentive-based regulatory regimes
- 10.4. In reviewing and evaluating the cost submissions of the RBE, the Commission may have regard to and employ the available assessment or analytical methods commonly employed by regulators elsewhere to assess the reasonableness and efficiency of operating and maintenance expenditure, including without limitation:
 - (a) **Trend Analysis**, the use of trends in historical time series data for specific cost items of the RBE to detect general patterns and the relationship between associated factors or drivers.
 - (b) **Methodology Assessment**, assessment of the robustness of the RBE models used and the related inputs, assumptions and methodologies, for developing expenditure forecasts.
 - (c) **Predictive Modelling**, the use of statistical and econometric modelling and analytical techniques to determine the expected pattern of efficient costs over the forthcoming Regulatory Period for specific categories of expenditure.

- (d) **Technical or Engineering Reviews**, usually undertaken with the assistance of specialised technical consultants or experts.
 - (e) **Benchmarking, econometric and statistical techniques** that relate allowed costs to benchmarks established by reference to comparator entities.
- 10.5. In determining whether RBE related entity costs are reasonable and efficient, the Commission may have regard to whether:
- (a) Related party transactions are entered on an arm's length basis through competitive tendering.
 - (b) Related party costs reflect the direct cost of providing the services, inclusive of a commercially reasonable return or margin.
 - (c) It can be demonstrated that the related party costs are comparable to market benchmarks (if there are several market service providers for the relevant services).

Unexpected operating expenditures

- 10.6. Unexpected Opex are operating expenditures that arise from an event or circumstance that was not foreseen at the time of setting the Annual Revenue Requirement. These will include but not limited to changes outside of the control of the licensee and changes in licensee obligations that are legally binding on the RBE.
- 10.7. A RBE can request in writing that the Commission undertake an interim review within a Regulatory Period and that the Commission make an Interim Review Adjustment to the Bundled Allowed Average Tariff, if it can demonstrate that the financial impact of Unexpected Opex on the relevant RBE during the Regulatory Period exceeds the materiality threshold.
- 10.8. The justification for why operating expenditures could not reasonably be foreseen or could not be prudently insured against or otherwise anticipated will be assessed as part of the review of an application for an Interim Review Adjustment.
- 10.9. The materiality threshold relating to Unexpected Opex differences is the greater of 1% of the annual Allowed Revenue Requirement or RM1 million

per RBE, and/or that the spend exceeds 5% of annual operating expenditure in the case of TNB Corporate.

10.10. The scope of the interim review shall be limited to the matters relating to the specific expenditure requirements and circumstances and will be subject to the standard review processes employed by the Commission.

Unpredictable operating expenditures

10.11. Unpredictable Opex are operating expenditures that arise from an event or circumstance that was foreseen at the time of setting the Annual Revenue Requirement, but the level of expenditure associated with that event or circumstance was uncertain, reflecting that the RBE does not have control over the costs to any material extent. The nature and impact of the event or circumstance and the associated costs are the result of actions and decisions made by others, external to the RBE and to TNB.

10.12. Unpredictable OPEX may include, but not limited to, an Allowance for Doubtful Debts which are deemed by the Commission to be non-controllable after considering:

- (a) the scale and duration of outstanding bills;
- (b) the evidence of efforts made by TNB to recover these debts, which may include litigation actions, including obtaining and/or enforcing court orders; and
- (c) whether legal restrictions or government directives, exist prohibiting disconnection.

10.13. Unpredictable OPEX may also include, but not limited to, costs arising from:

- (a) a change to, or introduction of government direction or instruction; and
- (b) a change to, or introduction of a tax or licence fee or similar charge.

10.14. The Commission may include an estimate of Unpredictable Opex in the RBE's Annual Revenue Requirement. For the avoidance of doubt, the inclusion of an estimate (if any) would generally apply by exception and do not supplant the primary requirement that RBE accurately forecast expenditure and that the Commission sets allowances on an ex ante basis.

END OF SECTION

11. Determining the Working Capital Requirement

- 11.1. The Annual Revenue Requirement shall include the cost of Working Capital Requirement for the Single Buyer and the Customer Services RBE.
- 11.2. The projected cost of Working Capital Requirement for the Single Buyer is equal to the estimated Net Cost of Coal Purchases multiplied by the Working Capital Remuneration Rate and is calculated according to the following formula:

$$WORK_{e,t} = WCRR_{e,P} \times COAL_{e,t}$$

Where:

' $WCRR_{e,P}$ ' is the Working Capital Remuneration Rate for the Single Buyer RBE 'e' for the Regulatory Period 'P'

' $COAL_{e,t}$ ' is the Net Cost of Coal Purchases for year 't' (expressed in RM):

$$COAL_{e,t} = (CADR_{e,t} - CADP_{e,t}) \times ADCC_{e,t}$$

Where:

' $CADR_{e,t}$ ' is the average days receivables for coal fuel costs paid to TNB by generators and, as a default, is set at 60 days

' $CADP_{e,t}$ ' is the average days payables for coal purchase costs by TNB and, as a default, is set at 30 days

' $ADCC_{e,t}$ ' is the average daily coal purchase costs and the forecast annual coal purchase costs of TNB in year 't' divided by 365 days.

- 11.3. The projected cost of Working Capital Requirement for the Customer Services RBE is equal to the sum of the net receivables working capital allowance and the average selling price variance working capital allowance, multiplied by the Working Capital Remuneration Rate and is calculated according to the following formula.

$$WORK_{cs,t} = WCRR_{cs,P} \times (NRWC_{cs,t} + APWC_{cs,t})$$

Where:

' $WCRR_{cs,P}$ ' is the Working Capital Remuneration Rate for the Customer Services RBE for the Regulatory Period ' P '

' $NRWC_{cs,t}$ ' is the net receivables working capital allowance, which is set to cover the difference between the timing of receivables from energy sales by the Customer Services RBE and the timing of payments of cost of sales from the Customer Services RBE to the other RBEs

' $APWC_{cs,t}$ ' is the average selling price variance working capital allowance, which is set to cover the variance in revenues between the Customer Services RBE's allowed average revenue (ie, the average selling price) and the Bundled Allowed Average Tariff (ie, the Price-Cap), which may arise due to differences between the forecast and actual mix of sales to different customer categories. $APWC_{cs,t}$ will equal zero until such a time as the Customer Services RBE is legally separate from the other RBEs. For the avoidance of doubt, the average selling price working capital allowance does not provide for working capital due to differences between forecast and actual volumes sold.

- 11.4. The Working Capital Remuneration Rate is equal to the most recent One-Month Interbank Rate reported by Bank Negara Malaysia plus 1.5 percentage points.
- 11.5. For the avoidance of doubt, the cost of Working Capital Requirement is equal to zero for the Transmission, Grid System Operator, and Distribution Network entities.

END OF SECTION

12. Determining the Weighted Average Cost of Capital

Principles

- 12.1. The weighted average cost of capital (WACC) represents the commercially fair and reasonable return to debt and equity investors on the Regulated Asset Base of each RBE having regard to the cash flow risks associated with the management of the assets of each RBE.
- 12.2. In setting the WACC for the RBE, the Commission must ensure that:
- (a) the WACC is based on an efficient and prudent capital structure
 - (b) the WACC reflects market-based returns on debt and equity
 - (c) the WACC adequately reflects regulatory and market risk in relation to the RBE's regulated activities
 - (d) there is consistency between all the WACC parameters and the underlying cash flows calculated in determining the Annual Revenue Requirement for the relevant RBE.
- 12.3. A separate WACC may be set for each individual RBE, reflecting the specific regulatory and market risk related to that entity, or a common WACC may be set for all RBE forming part of TNB.

Calculation of WACC

- 12.4. The WACC for each Regulatory Period is determined on a nominal, post-tax basis and is calculated using the following formula:

$$WACC_{P,e} = [GEAR_{P,e} \times DRTN_{P,e} \times (1 - RATE_P)] + [(1 - GEAR_{P,e}) \times ERTN_{P,e}]$$

Where:

' $WACC_{P,e}$ ' is the weighted average cost of capital in nominal, post-tax terms for RBE 'e' in Regulatory Period 'P'

' $GEAR_{P,e}$ ' is gearing, that is, the share of net debt in the sum of net debt and equity

' $DRTN_{P,e}$ ' is the nominal post-tax cost of debt

' $ERTN_{P,e}$ ' is the nominal (after-tax) return on equity

' $RATE_P$ ' is the statutory corporation tax rate

Gearing

- 12.5. The level of gearing to be used in the WACC calculation will be determined by the Commission prior to each Regulatory Period. The level of gearing is set based on the Commission's assessment of an efficient financing structure and need not be equal to the actual level of gearing of the RBE.
- 12.6. In setting the level of gearing, the Commission will have regard to the following:
- (a) Setting a gearing level that is generally consistent with an investment grade rating for the RBE, if assessed on a stand-alone basis for each entity.
 - (b) Setting a gearing level that does not lead nor is reasonably likely to lead to financing difficulties for the RBE or to costs of financing that create an unfair burden on electricity consumers considering the entities' forward investment programme.
 - (c) The level of gearing applied to other regulated infrastructure providers in Malaysia.
 - (d) International practice by regulatory authorities in countries that have similar incentive-based regulation and economic environments.
- 12.7. In the absence of a decision by the Commission, a default optimal gearing level of 55% will be applied.

Cost of debt

- 12.8. The forecast cost of debt is equal to the Risk-Free Rate plus the Debt Premium, plus efficient debt issuance costs.
- 12.9. The Debt Premium is the estimated premium over the Risk-Free Rate that the RBE must pay to finance their debt and reflects the additional risks of

these companies or entities, having regard to their credit rating (if so rated) and their set or notional gearing levels.

12.10. In calculating the Debt Premium, the Commission will have regard to the following:

- (a) The historical or embedded cost of debt of the RBE.
- (b) The historical (5-10 years) average yield on medium to long dated corporate bonds issued by investment-grade companies in Malaysia and elsewhere that face similar business and regulatory environments and have similar credit ratings. Calculations must include bonds that are liquidly traded (as determined by typical turnover metrics and issuance size).
- (c) Assessments made for other regulated infrastructure providers in Malaysia.

Cost of equity

12.11. In setting the cost of equity for the RBE, the Commission will have regard to:

- (a) The Capital Asset Pricing Model or other theoretical models as applied under IBR regimes in Malaysia and internationally.
- (b) Cost of equity assessments made for other regulated infrastructure providers in Malaysia.
- (c) Assessments made by regulatory authorities in countries with similar IBR regimes of generic cost of equity components and of the required risk-related returns for equity investors of utility businesses, provided that such assessments are adjusted to exclude the effect of any country-specific risk.

Capital Asset Pricing Model estimation

12.12. Where the Capital Asset Pricing Model is employed for estimating the cost of equity, the following standard formula shall be used:

$$ERTN_{P,e} = RFR_P + (MRP_P \times \beta_{equity P,e})$$

Where:

' RFR_P ' is the Risk-Free Rate, the rate of return that would be available from a risk-free investment in Malaysia

' MRP_P ' is the Market Risk Premium, the additional return (over the Risk-Free Rate) that can be expected from a balanced portfolio of investments

' $\beta_{equity\ P,e}$ ' (the Equity Beta) is the exposure to market risk of the RBE, measured by the level of covariance of returns on an investment in the RBE and the returns from the market portfolio divided by the variance of returns on the market portfolio

12.13. In setting the Risk-Free Rate, the Commission will primarily rely on the historical and current average yields on long term Malaysian Government Securities.

- (a) Historical data on MGS yields must span at least (and need not be limited to) five years.
- (b) The Commission may consider whether any temporary or unique circumstances (for example, and without limitation, the actions of the monetary authorities, such as quantitative easing and other unconventional monetary policies) are impacting the calculated Risk-Free Rate.

12.14. In setting the Market Risk Premium, the Commission will use evidence from the Malaysian stock market (KLSE) and from international estimates and precedents set by regulatory authorities in countries with similar regulatory arrangements. In general, greater weight should be given to the most recent price and revenue determinations made by such regulators.

12.15. In setting the Equity Beta, the Commission will have regard to:

- (a) Correlation Coefficient historical data for the RBE or, where this is not a stand-alone listed entity, its parent entity, and the KLSE Composite Index, over at least the past five years.
 - (i) Where parent entity data is used, the estimated beta must be adjusted to reflect the systematic risk associated with the relevant RBE alone. This can be done by estimating, from comparators, the beta that would apply to the RBE and to

other businesses undertaken by the parent entity if a separate entity.

- (ii) The directly estimated beta must be adjusted to reflect the regulated gearing level.
- (b) Assessments made for other regulated infrastructure providers in Malaysia.
- (c) The Equity Beta estimates established by regulatory authorities in countries with similar IBR regimes and business risks, with preference given to countries where at least some of the regulated companies are listed on a liquid stock exchange.

END OF SECTION

13. Determining the Regulated Asset Base

Principles of the Regulated Asset Base

13.1. The Regulated Asset Base represents net investment by the RBE which is remunerated through regulated tariffs and charges. The general principles applied are that:

- (a) The Regulated Asset Base allows the recovery of the actual costs of efficient investments, excluding any part of these costs that is funded by customer contributions.
- (b) Assets included in the Regulated Asset Base are valued at the historical cost of purchase or construction. No revaluation is applied.
- (c) The Commission may exclude part of the costs of assets from the Regulated Asset Base where it considers these costs to be inefficient.
- (d) The Commission may exclude the full costs of assets from the Regulated Asset Base where it considers these assets to be imprudent investments or otherwise not to be required to deliver the Regulated Services.

Calculation of the Regulated Asset Base

13.2. Within each Regulatory Period, the Regulated Asset Base at the end of a year 't' of a Regulatory Period is designated RAB_t and shall be calculated according to the following formula:

$$RAB_{t,e} = RAB_{t-1,e} + CPEX_{t,e} - DISP_{t,e} - DEPN_{t,e} + UNPX_{t,e}$$

Where:

' $CPEX_{t,e}$ ' represents forecast prudent and efficient capital expenditure that is incurred by the RBE 'e' in year 't', as set out in the approved investment plan

' $DISP_{t,e}$ ' represents the net value of fixed assets disposed of during year 't'

' $DEPN_{t,e}$ ' is an allowance for depreciation in year 't'

' $UNPX_{t,e}$ ' represents adjustments for unpredictable capital expenditures calculated in accordance with an *ex ante* mechanism as specified for the Regulatory Period

Approved investment plan

- 13.3. As part of its business plan submitted prior to each Regulatory Period, each RBE shall submit a proposed investment plan for the next Regulatory Period.
- 13.4. At a minimum, this investment plan shall include:
- (a) A list of all projects and programmes (for smaller projects) that the RBE proposes to invest in during the next Regulatory Period.
 - (b) The estimated investment costs of each project or programme, excluding any customer contributions and grants, subsidies or other contributions from third parties that are of a capital or non-current nature.
 - (c) The expected commissioning date of each project or programme.
 - (d) A summary justification for each project or programme explaining the need and the alternatives considered and why these were not adopted.
 - (e) The investment plan shall include repair, rehabilitation, replacement and other maintenance works on existing assets that are expected to lead to an increase in the capacity of that asset or an extension of its usable life or both. Such expenditures will be treated as capital expenditures and added to the Regulated Asset Base.
- 13.5. The Commission will review the investment plan with respect to the need for and proposed costs of each project and programme. Following such review, the Commission will determine an approved investment plan for the purposes of forecasting the Regulated Asset Base in each year of the next Regulated Period.
- 13.6. In reviewing the investment plan, the Commission may make use of engineering estimates and of benchmarking of the costs of individual projects and programmes and of the investment plan as a whole or by component. For example, the Commission may assess the

reasonableness of proposed costs of meeting growth in demand or consumption by comparison with the historical average costs of investments to meet consumption and demand growth.

Updating the Regulated Asset Base

13.7. The Regulated Asset Base will be updated by the RBE at the start of each Regulatory Period. The process for updating is as follows:

- (a) The opening Regulated Asset Base for the preceding Regulatory Period is rolled-forward to the close of that Regulatory Period. This closing value represents the opening Regulated Asset Base for the next Regulatory Period.
- (b) The roll-forward involves the calculation of the closing Regulated Asset Base in each year of the preceding Regulatory Period using the same formula as in paragraph 13.2 but substituting the approved forecast values ($CPEX_{t,e}$, $DISP_{t,e}$ and $DEPN_{t,e}$) plus any adjustments for approved unpredictable capital expenditures ($UNPX_{t,e}$) with approved actual investment costs and asset disposals in each year. Asset disposals shall be set at an amount that is the lower between the proceeds arising from the sale or transfer of assets by the RBE to other parties, and the fair value.
- (c) The depreciation allowance in each year shall then be recalculated accordingly.
- (d) For the final year of the preceding Regulatory Period, estimated values will be used.

13.8. For the purposes of this roll-forward, the Commission shall disallow some part of the actual investment costs or the inclusion of some expenditure where it considers, following an *ex post* prudence review, that these costs or assets are inefficient or that they include an unreasonable or inflated margin earned by a RBE-related party.

Ex-post prudence reviews of capital expenditure

13.9. In determining the capital expenditure to be included in the asset base and rolled forward between Regulatory Periods, the Commission may

undertake an ex post review of historical capital expenditure to assess its prudence and efficiency.

- 13.10. An ex post assessment of capital expenditure shall generally be limited to where there is material overspending by any of the RBE or at the corporate level of a RBE. The materiality threshold will be considered to have been met where the overspend (excluding Unpredictable Capex, other than that subject to a budget ceiling with a prudence review trigger) exceeds 1% of the Annual Revenue Requirement or RM1 million per RBE and 5% of annual capital expenditure spend for related corporate-level expenditure, whichever is greater.
- 13.11. Subject to the materiality thresholds, the scope of the ex post review shall be generally determined by whether the overspend relates to investment projects previously identified and approved in an IBR review and included in an approved investment plan.
- (a) For material overspend on investment projects that were in the approved investment plan, the review shall entail a cost assessment. This review must consider any procurement procedures employed by the RBE in delivering the investment projects, it must examine the causes of the cost overruns, and it must determine whether these causes can be ascribed to the actions of the RBE (or corporate entities) or external factors outside their control.
 - (b) For projects that were not included in the approved investment plan, the ex post assessment may focus on both the need and cost of the investment.
 - (i) In determining the prudence or efficiency of such investments, the Commission may have regard to the circumstances prevailing at the time of the investment decision, and the factors that could reasonably be expected to have been considered at the time the relevant capital expenditure was undertaken.
 - (ii) The relevant RBE must also demonstrate why the realised expenditure could not have been predicted at the time of developing the capital expenditure programme and setting the Annual Revenue Requirement

13.12. Without limiting the factors that must be considered by the Commission in assessing prudence and efficiency, the Commission may also have regard to:

- (a) Whether the expenditure was reasonably related to the requirements set by the Commission and/or under relevant laws, regulations and licence conditions.
- (b) Whether alternative ways of addressing requirements and needs were considered and justifiably excluded.
- (c) Whether accepted good industry practice was followed.
- (d) Whether the relevant RBE acted prudently in procuring goods, works and services at a reasonably low cost, including whether an appropriate competitive tendering process was followed.
- (e) Whether the timing of construction was appropriate having regard to current and projected demand and quality of service

13.13. Before reaching a conclusion on its ex post review of capital expenditure, the Commission may first convey its analysis to the relevant RBE and provide it with reasonable opportunity to respond and submit comments.

13.14. If, after consulting with the RBE, the Commission is satisfied that certain expenditure in accordance with this section is imprudent or inefficient, it may determine that the amount of the capital expenditure that would otherwise be added to the Regulated Asset Base should be reduced by such amount as the Commission is satisfied corresponds to capital expenditure incurred that is not prudent or efficient.

Unpredictable capital expenditure

13.15. In determining capital expenditure for the forthcoming Regulatory Period and where there is material uncertainty regarding the timing and/or size of an individual project or programme, a RBE may propose to the Commission an appropriate ex ante mechanism for handling the inclusion of such investments (“Unpredictable Capex”) in the Regulated Asset Base and the Annual Revenue Requirement.

13.16. For the avoidance of doubt, these mechanisms (if any) would generally apply by exception and do not supplant the primary requirement that RBE

accurately forecast investment needs and costs, and the Commission sets ex ante allowances and Allowed Revenues.

13.17. Without pre-empting, limiting or prescribing any such mechanisms that may be developed, these may include:

- (a) **Logging-up.** This is where a RBE would be entitled to incorporate in the next Regulatory Period unanticipated capital expenditure, recognised by the Commission after an ex post prudency review, as though it was undertaken at the beginning of the new Regulatory Period with the financial carrying costs of the capital expenditure (calculated using the allowed WACC for the relevant Regulatory Period(s)) included in the Regulated Asset Base.
 - (i) The logging up process aims to put entities in the same financial position as if the obligation had been included in the revenue requirement at a periodic review, but the RBE must bear the financing charges until the investment can be incorporated into the Regulated Asset Base.
 - (ii) Logging up generally applies to relatively small scale and difficult to predict investments, such as telecoms infrastructure or distributed generation-related costs.
- (b) **Fixed volume with price pass-through.** This is where the quantity of investment would be set with an assumed ex ante unit allowance applied, but with the latter updated for actual unit costs incurred (subject to any prudency test) when rolling forward the Regulated Asset Base. This approach could apply when the quantity of investment is known but there is too much uncertainty around costs to set an ex ante allowance e.g. site clearance costs.
- (c) **Fixed unit cost with volume pass-through.** This is where the unit cost of investment would be set with an assumed ex ante volume applied, but with the latter updated for actual investment volumes undertaken (subject to any prudency test) when rolling forward the Regulated Asset Base. This could apply where the unit cost of the investment is known (or predictable) but the volume is uncertain. An example is power line replacement, where the average cost per kilometre might be known but volume (the total number of kilometres) for the duration of the Regulatory Period might be uncertain.

- (d) **Budget ceiling.** This is where a maximum budget would be set for a specific capital expenditure programme. This could either be treated as a firm limit or one that would then trigger a prudency review. Under this approach a maximum budget could be set for a specific capex programme or project to avoid over-investment and exceeding expected benefits that were used to justify the investment, such as smart metering roll-outs.
- (e) **Contingent projects.** This could apply where there are unique investment drivers – such as a major discrete load or expected power station – as opposed to general investment drivers (e.g. expectation of load or peak load growth affecting a broader region), and where it is not sufficiently certain that the event or condition giving rise to the investment need will occur during the forthcoming regulatory period. For projects characterised as being contingent, a RBE could request a change to its Annual Revenue Requirement provided a pre-specified trigger event (that gives rise to the need for the project) has occurred and subject to the materiality thresholds of paragraph 13.19.

13.18. Following any RBE proposal under 13.15 and 13.17, the Commission may determine whether to accept that such investment is Unpredictable Capex and, if so, whether the proposed treatment is appropriate or whether another mode should be applied.

13.19. For investments that are likely to have a material impact on capital expenditure (and the Regulated Asset Base) that were not foreseen at the time of setting the Annual Revenue Requirement and cannot be subject to an ex ante mechanism in accordance with 13.15 to 13.18 above, a RBE can request that the Commission review within a Regulatory Period the specific proposal and make a separate determination.

- (a) Before undertaking such an interim review, the RBE must demonstrate that the investment project or programme could not have reasonably been foreseen at the time of setting the Annual Revenue Requirement, and that in the absence of the review, the financial impact on the relevant RBE would exceeds 1% of the Annual Revenue Requirement or RM1 million per RBE and 5% of annual capital expenditure spend for related corporate-level expenditure, whichever is greater.

- (b) exceed the greater of 1% of the Annual Revenue Requirement or RM1 million per RBE, and/or that the spend exceeds 5% of annual capital expenditure in the case of corporate entities.
- (c) The scope of the review shall be limited to the matters relating to the specific investment project or programme and will be subject to the standard review processes employed by the Commission.

END OF SECTION

14. Depreciation allowance

- 14.1. The depreciation allowance is calculated for each year of the Regulatory Period by the RBE, applying the following principles:
- (a) The Regulated Asset Base should be recovered in full by the RBE, through the depreciation allowance, over the expected service (economic) lives of the relevant regulated assets.
 - (b) The RBE shall propose depreciation rates or asset lives by major asset groupings, which are appropriate depreciation policy adopted by the RBE.
 - (c) Depreciation shall be calculated by assuming that, in the year that an asset is added to the Regulated Asset Base, half of it is added at the beginning of the year and half of it is added at the end of the year.
- 14.2. Subject to the remaining provisions of this Section, the RBE shall calculate depreciation based on the depreciation schedules maintained for accounting purposes and for preparing their audited financial statements.
- 14.3. The RBE must also calculate depreciation on capital expenditure incurred in previous Regulatory Periods by using an average remaining asset life for each asset category, rather than according to annual depreciation schedules related to historical capital expenditure.
- (a) In calculating the average remaining asset life for each asset category, the RBE shall ensure that the sum of calculated depreciation over the current Regulatory Period is unchanged.
 - (b) For the avoidance of doubt, the RBE shall use annual depreciation schedules to calculate depreciation on capital expenditure incurred in the current Regulatory Period.
- 14.4. If the calculation of depreciation employing the two respective methods described in paragraphs 14.2 and 14.3 differs by more than 5%, the Commission will investigate the causes of the deviation and decide the appropriate depreciation allowance.

- 14.5. In all circumstances, the depreciation rates or asset lives employed by each major asset grouping must be verifiable; this includes that they be explicitly captured within the Revenue Requirements Model.

END OF SECTION

15. Tax and Zakat allowance

- 15.1. The Tax and Zakat Allowance represents an allowance each year for corporate tax payments calculated based on forecasts of taxable income and the applicable corporate tax rate and for zakat payments.
- 15.2. The allowance shall be calculated having regard to taxable revenues, which are equivalent to the Annual Revenue Requirement before the tax and zakat allowance less operating expenditures and capital allowances, as below:

$$TAXZ_{t,e} = RATE_t \times (REQT_{t,e} - OPEX_{t,e} - DEPN_{t,e})$$

- 15.3. Capital allowances shall be based on the applicable rates under the current and relevant Malaysian taxation guide. Where a capital allowance is not calculated then the allowed depreciation for that year shall be applied instead.
- 15.4. Any taxation losses incurred in any year of the Regulatory Period can be carried forward to offset future tax liabilities.

END OF SECTION

16. Opex Efficiency Carry-Over Scheme adjustment

Principles of the operating expenditure ECS

- 16.1 The operating expenditure Efficiency Carry-Over Scheme (ECS) adjustment is calculated to meet the following objectives:
- (a) The operating expenditure ECS will enhance the incentive of the RBE to achieve prudent and efficient expenditures.
 - (b) The operating expenditure ECS will assist with providing clear and consistent incentives to the RBE, with an incentive power that does not materially vary of time either within or between Regulatory Periods.
 - (c) Taken together, the operating expenditure and capital expenditure ECS mechanisms will assist with and not unduly distort expenditure decision-making between capital expenditure and operating expenditure, to the extent that such options exist.

Application of the operating expenditure ECS

- 16.2 The operating expenditure ECS adjustment will apply only to the Transmission, Distribution, and Customer Services RBEs. For the avoidance of doubt, the operating expenditure ECS adjustment will equal zero for the Single Buyer and Grid System Operator RBEs.
- 16.3 The operating expenditure ECS will not apply to unpredictable opex and unexpected opex, which will both be excluded from the calculation of the operating expenditure ECS adjustment.
- 16.4 The Commission may also determine that other specific categories of allowed operating expenditure be excluded from the operating expenditure ECS, on the basis that they are largely outside of the RBE's control. Such exclusions will generally apply by exception and do not supplant the primary requirement that RBEs be incentivised to improve the efficiency of all its operating expenditure.
- 16.5 For the avoidance of doubt, for any expenditure categories that are excluded from the operating expenditure ECS, both the actual operating expenditure and allowed operating expenditure relating to those

categories will be excluded from the calculation of the operating expenditure ECS adjustment.

Calculation of the operating expenditure ECS adjustment

16.6 The operating expenditure ECS adjustment will be calculated as follows:

- (a) For each year of the current (soon to be completed) Regulatory Period, the operating expenditure underspend (or overspend, if negative) will be calculated as the difference between allowed operating expenditure and actual operating expenditure. In the last year of the current Regulatory Period an estimate of actual operating expenditure will be used that assumes the same operating expenditure underspend (or overspend, if negative) as in the penultimate year.
- (b) For each year of the current Regulatory Period, the incremental efficiency gain (or loss, if negative) will be calculated as the difference between the operating expenditure underspend (or overspend, if negative) in that year and the operating expenditure underspend (or overspend, if negative) in the preceding year. The exception is in the first year of the current Regulatory Period, where the incremental efficiency gain will be set equal to the operating expenditure underspend (or overspend, if negative) in that year less the incremental efficiency gain in the last year of the previous Regulatory Period (which is calculated based on audited values of actual operating expenditure) and will be adjusted for any non-recurrent expenditures included in those years.
- (c) The operating expenditure ECS adjustment will be set such that the incremental efficiency gain (or loss, if negative) in each year of the current Regulatory Period is retained (or incurred, if negative) for a period equal to the number of years in the next Regulatory Period, by being carried forward for that number of years. For example, an incremental efficiency gain incurred in the penultimate year of the current Regulatory Period will be carried forward for three years (the example length of the next Regulatory Period), which means from the last year of the current Regulatory Period through to and including year two of the next Regulatory Period.

- (d) No subsequent adjustment will be made to account for any difference between the estimated and actual values of operating expenditure in the last year of each Regulatory Period (once those audited values are known). On the basis that when trend analysis is used to determine allowed operating expenditure, as described in these Guidelines, allowed operating expenditure will necessarily be set starting from actual operating expenditure in the penultimate year of the current Regulatory Period and therefore any incremental efficiency gain (or loss, if negative) in the final year of a Regulatory Period will already be retained (or incurred, if negative) by the RBE for the length of the next Regulatory Period.

16.7 The above description of the calculation of the operating expenditure ECS adjustment will be applied according to the following formula:

$$ESCO_{e,t} = \sum_{n=t}^{N-1} GAIN_{e,n}$$

Where:

't' is the year of the next Regulatory Period 'P'

'n' is the year of the current Regulatory Period 'P-1'

'N' is the total number of years in the current Regulatory Period 'P-1'

'GAIN_{e,n}' is the incremental efficiency gain for RBE 'e' in year 'n' (expressed in RM)

16.8 The calculation of the incremental efficiency gain (or loss, if negative) will be applied according to the following formula:

If $n = 1$ (the first year of the current Regulatory Period) then:

$$GAIN_{e,n} = (OPEX_{e,n} - \alpha OPEX_{e,n}) - GAIN_{e,n-1}$$

If $n > 1$ (not the first year of the current Regulatory Period) then:

$$GAIN_{e,n} = (OPEX_{e,n} - \alpha OPEX_{e,n}) - (OPEX_{e,n-1} - \alpha OPEX_{e,n-1})$$

Where:

'OPEX_{e,n}' is the allowed operating expenditure for RBE 'e' in year 'n' (expressed in RM)

' $aOPEX_{e,n}$ ' is the actual operating expenditure for RBE 'e' in year 'n' (expressed in RM)

' $GAIN_{e,n-1}$ ' is the incremental efficiency gain for RBE 'e' in the last year of the previous Regulatory Period which is calculated based on audited values of actual operating expenditure in that year (expressed in RM).

END OF SECTION

17. Capex Efficiency Carry-Over Scheme adjustment

Principles of the capital expenditure ECS

- 17.1 The capital expenditure Efficiency Carry-Over Scheme (ECS) adjustment is calculated to meet the following objectives:
- (a) the capital expenditure ECS will enhance the incentive of the RBE to achieve prudent and efficient expenditures.
 - (b) the capital expenditure ECS will assist with providing clear and consistent incentives to the RBE, with an incentive power that does not materially vary of time either within or between Regulatory Periods.
 - (c) taken together, the operating expenditure and capital expenditure ECS mechanisms will assist with and not unduly distort expenditure decision-making between capital expenditure and operating expenditure, to the extent that such options exist.

Application of the capital expenditure ECS

- 17.2 The capital expenditure ECS will apply only to the Transmission, Distribution, and Customer Services RBEs. For the avoidance of doubt, the capital expenditure ECS adjustment will equal zero for the Single Buyer and Grid System Operator RBEs.
- 17.3 The capital expenditure ECS will not apply to unpredictable capex, which will be excluded from the calculation of the capital expenditure ECS adjustment.
- 17.4 The Commission may also determine that specific projects or programmes of capital expenditure be excluded from the capital expenditure ECS. Such exclusions will generally apply by exception and do not supplant the primary requirement that RBEs be incentivised to improve the efficiency of all its capital expenditure.
- 17.5 For the avoidance of doubt, for any specific projects or programmes that are excluded from the capital expenditure ECS, both the actual capital expenditure and allowed capital expenditure relating to those projects or

programmes will be excluded from the calculation of the capital expenditure ECS adjustment.

17.6 The reasons for excluding specific projects or programmes from the capital expenditure ECS may include but are not limited to:

- (a) the primary driver of the project or programmes is an obligation imposed by government or by the Commission.
- (b) there is a strong relationship between the level of expenditure on the project or programme and the level of achievement of an outcome (such as volume-deployments of an item of technology), such that underspend alone cannot be assumed to be an indicator of efficiency.

17.7 Where the Commission determines that specific projects or programmes of allowed capital expenditure be excluded from the capital expenditure ECS, the Commission may nevertheless define an alternative incentive scheme to apply to that project or programme.

17.8 The capital expenditure ECS will apply to each RBE as follows:

- (a) If the RBE's total actual capital expenditure across the relevant period is materially lower than its total allowed capital expenditure across the relevant period, then the capital expenditure ECS adjustment shares the underspend between the RBE and electricity customers. This sharing is intended to provide an incentive to the RBE for efficiency improvements in capital expenditure while, at the same time, recognising that some savings may be due to circumstances outside of the RBE's control (for example, a large customer deferring a connection) which do not result from efficiency improvements. Because it is generally difficult to attribute a saving to one cause or another, the adjustment shares any underspends based on a percentage that is pre-determined by the Commission.
- (b) If the RBE's total actual capital expenditure across the relevant period is greater than total allowed capital expenditure across the relevant period, there will be no sharing between the RBE and electricity customers. For the avoidance of doubt, the capital expenditure ECS adjustment will equal zero unless the RBE's total actual capital expenditure across the relevant period is materially

lower than its total allowed capital expenditure across the relevant period.

- (c) The relevant period over which actual capital expenditure and allowed capital expenditure will be compared is from the last year of the previous Regulatory Period through to, and including, the penultimate year of the current Regulatory Period. The last year of the current Regulatory Period is excluded from the comparison because audited values of actual capital expenditure will not be known at the time of determining the Annual Revenue Requirement.

17.9 Total actual capital expenditure across the relevant period will be considered to be materially lower than total allowed capital expenditure across the relevant period if the difference exceeds the greater of:

- (a) 1% of total Annual Revenue Requirement across the relevant period; or
- (b) 5% of average annual actual capital expenditure across the relevant period.

17.10 The Commission may adjust the values of capital expenditure underspend used in the calculation of the capital expenditure ECS adjustment to ensure that the benefits of an RBE deferring capital expenditure from one period to the next are shared with customers. Any such adjustment will only be applied if total allowed capital expenditure in the next period is materially higher than it would have been had the capital expenditure not been deferred.

Sharing factor for capital expenditure ECS

17.11 At the time of determining the Annual Revenue Requirement the Commission will determine a capital expenditure sharing factor that will be applied to capital expenditure underspends incurred during the next relevant period.

17.12 The capital expenditure sharing factor will be expressed as a percentage and will represent the share of the capital expenditure underspend that will be returned to customers through the capital expenditure ECS adjustment, with the balance (ie. 100% minus the capital expenditure sharing factor) retained by the RBE.

17.13 The Commission will set the capital expenditure sharing factor such that the incentive power faced by the RBE to improve capital expenditure efficiency is broadly similar to the incentive power faced by the RBE to improve operating expenditure efficiency under the operating expenditure ECS.

17.14 Unless otherwise determined by the Commission, the capital expenditure sharing factor will be at the ratio of 70%:30%, which means that 70% of the capital expenditure underspend will be returned to customers and 30% will be retained RBE through the capital expenditure ECS adjustment.

Calculation of the capital expenditure ECS adjustment

17.15 The capital expenditure ECS adjustment will be calculated as follows:

- (a) For the last year of the previous Regulatory Period and for each year of the current (soon to be completed) Regulatory Period, excluding the last year of the current Regulatory period, the capital expenditure underspend will be calculated as the difference between actual capital expenditure and allowed capital expenditure, less any deferral adjustment.
 - (i) For the avoidance of doubt, the capital expenditure underspend may be positive or negative in any given year.
 - (ii) The deferral adjustment will equal the increase in allowed capital expenditure in the next period arising due to deferrals in the current period, after adjusting for the time value of money at the applicable Weighted Average Cost of Capital.
- (b) For the last year of the previous Regulatory Period and for each year of the current Regulatory Period, the earned underspend benefit will be calculated as the difference between the total Annual Revenue Requirement earned from using allowed capital expenditure and the total Annual Revenue Requirement that would have been earned had actual capital expenditure been used in the calculation instead.
 - (i) For the avoidance of doubt, the components of the Annual Revenue Requirement that will change if using allowed capital expenditure rather than actual capital expenditure

include return on capital, depreciation, and the Tax and Zakat allowance.

- (ii) For the avoidance of doubt, the earned underspend benefit may be positive (if actual capital expenditure was lower than allowed capital expenditure) or negative (if actual capital expenditure was higher than allowed capital expenditure) in any given year.
- (c) The total shared underspend, which is a total value rather than an annual value, will be calculated as the sum of:
 - (i) The capital expenditure underspend, multiplied by one minus the applicable capital expenditure sharing factors, summed across the period and adjusted for the time value of money at the applicable Weighted Average Cost of Capital.
 - (ii) The earned underspend benefit, summed across the period and adjusted for the time value of money at the applicable Weighted Average Cost of Capital, multiplied by minus one.
- (d) For each year of the next Regulatory Period, the capital expenditure ECS adjustment will be calculated as the total shared underspend converted to an annual amount, taking account of time value of money at the Weighted Average Cost of Capital for the next Regulatory Period.
- (e) In calculating the capital expenditure ECS adjustment, the Commission will by default allow recovery within the next Regulatory Period. Where this would result in an unacceptable impact on customer tariffs that cannot be rectified by other means, the Commission may adjust it to spread the recovery of the total shared underspend across multiple Regulatory Periods.

17.16 The above description of the calculation of the capital expenditure ECS adjustment will be applied according to the following formula:

$$ECSX_{e,t} = \frac{TSUS_{e,P-1}}{ANNF_{e,P}}$$

Where:

'P' is the next Regulatory Period

'P-1' is the current Regulatory Period

't' is the year of the next Regulatory Period 'P'

' $TSUS_{e,P-1}$ ' is the total shared underspend for RBE 'e' in the current Regulatory Period 'P-1' (expressed in RM)

' $ANNF_{e,P}$ ' is the annuity factor for RBE 'e' in the next Regulatory Period 'P' (expressed as a factor)

17.17 The total shared underspend, which is a component of the capital expenditure ECS adjustment, will be calculated according to the following formula:

$$TSUS_{e,P-1} = \sum_{n=1}^N [(CXUS_{e,n} \times (1 - CXSF_{e,n}) - EUSB_{e,n}) \times (1 + WACC_{e,n})^{(N-n)}]$$

Where:

'n' is the year of the current Regulatory Period 'P-1'

'n-1' is the last year of the previous Regulatory Period 'P-2'

'N' is the total number of years in the current Regulatory Period 'P-1'

' $CXUS_{e,n}$ ' is the capital expenditure underspend for RBE 'e' in year 'n' (expressed in RM)

' $CXSF_{e,n}$ ' is the capital expenditure sharing factor for RBE 'e' in year 'n' (expressed as a percentage)

' $EUSB_{e,n}$ ' is the earned underspend benefit for RBE 'e' in year 'n' (expressed in RM)

' $WACC_{e,n}$ ' is the Weighted Average Cost of Capital for RBE 'e' in year 'n' (expressed as a percentage)

17.18 The capital expenditure underspend, which is a component of the total shared underspend, will be calculated according to the following formula:

If $n < N$ (not the last year of the current Regulatory Period) then:

$$CXUS_{e,n} = CPEX_{e,n} - aCPEX_{e,n} - DFRA_{e,n}$$

Where:

' $DFRA_{e,n}$ ' is the deferral adjustment for RBE 'e' in year 'n' (expressed in RM)

If $n = N$ (the last year of the current Regulatory Period) then:

$$CXUS_{e,n} = 0$$

17.19 The annuity factor, which is a component of the capital expenditure ECS adjustment, will be calculated according to the following formula:

$$ANNF_{e,p} = \frac{1 - (1 + WACC_{e,p})^{-T}}{WACC_{e,p}}$$

Where:

' T ' is the total number of years in the next Regulatory Period ' P '

END OF SECTION

18. Quality of Service Incentives adjustment

- 18.1. The Quality of Service Incentives adjustment provides an incentive or penalty to RBE for their performance relative to the key performance indicators (“KPIs”) as explained in the Standards of Performance issued by the Commission.
- 18.2. For some of the KPIs, the Commission will stipulate a target level of performance to be met by the relevant RBE and an incentive and penalty range and value for exceeding or failing to achieve this target. The incentive and penalty values will be expressed as a percentage of Annual Revenue Requirements in each year. These targets and incentives and penalties will be specified prior to the start of each Regulatory Period.
- 18.3. Prior to the start of each Regulatory Period, each RBE will calculate the monetary sum of the incentives and penalties for the preceding Regulatory Period, according to the following formula:

$$SERV_{P-1,e} = \left[\sum_{q,n}^{Q,N} (PERF_{e,q,n} \times REQT_{e,n}) \right] + CORR_{P-2,e}$$

Where:

‘ $SERV_{P-1,e}$ ’ is the total monetary incentive or penalty payable to RBE ‘e’ for performance against quality of service KPIs in the preceding Regulatory Period ‘P-1’ (expressed in RM)

‘ $PERF_{e,q,n}$ ’ is the incentive or penalty payable RBE ‘e’ for performance against KPI ‘q’ in year ‘n’ of the preceding Regulatory Period (expressed as a percentage, where a penalty is a negative value). This value will be actual for the first to penultimate years of the preceding Regulatory Period ‘P-1’ and estimated for the last year

‘q’ is an individual quality of service KPI

‘Q’ is the total number of quality of service KPIs in the preceding Regulatory Period

‘ $CORR_{P-2,e}$ ’ is a correction factor which represents the difference between the estimated value of incentives and penalties in the last year of the preceding Regulatory Period ‘P-2’ (as used in the calculation of the incentive to apply in Regulatory Period ‘P-1’) and the actual value of incentives and penalties in that year

- 18.4. The correction factor is required as the incentives and penalties payable for the final year of the preceding Regulatory Period will be an estimated value. A correction for the difference between this estimated value and the value calculated when actual performance is known is added to the monetary sum of incentives and penalties applied in the following Regulatory Period.
- 18.5. This sum will be divided by the number of years in the next Regulatory Period to obtain an annual average value, according to the following formula:

$$SERV_{t,e} = SERV_{P-1,e}/T_P$$

- 18.6. This annual average value shall be included in the Annual Revenue Requirement as the Quality of Service Incentives adjustment term.

END OF SECTION

19. Joint and common costs

Approval of allocation methodologies

- 19.1. No later than ten months prior to each Regulatory Period, the RBE shall notify the Commission of the cost allocation methodologies that they propose to use. The Commission will notify the RBE of its acceptance or rejection of the methodology within one month of the receipt of the methodology.
- 19.2. In their description of calculations and assumptions used to prepare the RRS, the RBE shall detail the allocation methodology applied to each significant allocated item. For this purpose, a significant allocated item is defined as one with a value exceeding 1% of the forecast revenues of the RBE in that year.

Cost allocation principles

- 19.3. In reporting costs, revenues and assets in the RRS, and for the period that they remain within the TNB Group, the RBE shall allocate costs based on the following steps:
- (a) Firstly, the total costs of corporate services in each year of the Regulatory Period shall first be calculated following the same methodology as for the calculation of Annual Revenue Requirements for the RBE.
 - (b) Secondly, the costs, revenues and assets attributable to the generation of electricity and Excluded Services (if relevant) shall then be separated from those related to the RBE.
 - (c) Thirdly, the costs, revenues and assets of the RBE shall be separated between the individual RBE.
- 19.4. More generally, all allocations applied by the RBE shall conform to the following principles:
- (a) **Causality.** The allocation base should be the share of or use made by the entity of the activities which cause the costs or liabilities concerned to be incurred, the revenues to be earned or the assets to be acquired.

- (b) **Objectivity.** The basis of allocation should not unduly favour the RBE or any other company or organisation.
- (c) **Consistency.** Where practicable, the basis of allocation should be consistent from year to year.
- (d) **Non-duplication.** A certain joint cost can only be allocated once.
- (e) **Transparency.** The basis of allocation should be clear and understandable.

19.5. In general, the Fully Distributed Cost Allocation Methodology is the Commission's preferred allocation methodology.

END OF SECTION

20. Long-Term Sustainability

- 20.1. Before deciding on the Annual Revenue Requirement, the Commission may assess that the proposed Annual Revenue Requirement is consistent with the RBE maintaining its long-term sustainability.
- 20.2. For each RBE, the assessment will be done based on legally independent entity without the benefit of a corporate guarantee from TNB.
- 20.3. For the purposes of this assessment, the Commission may have regard to the criteria applied by going concern utility. In particular, the Commission may review whether:
 - a) the return on regulated asset base as stipulated in Section 12.3; and
 - b) the forecast of total net debt to total capital (gearing ratio) as stipulated in Section 12.7.

The above ratios should fall within the level required to maintain its long-term sustainability.

- 20.4. Where this is not the case, the Commission will assess whether this is a transitory concern with ratios returning to the necessary levels later in the Regulatory Period or whether this is a longer-term concern.
- 20.5. If a longer-term concern, the Commission may identify appropriate adjustments to the calculation of the Annual Revenue Requirement that can address this concern.

END OF SECTION

21. Regulatory Reporting Statements

Purpose of the Regulatory Reporting Statements

- 21.1. The purposes of the Regulatory Reporting Statements (RRS) are to allow the Commission to:
- 21.2. Identify how the RBE are performing relative to forecast outcomes, particularly with regards to regulatory returns on assets, and the reasons for any differences.
 - (a) Make consistent assessments over time of the RBE cost efficiency and productivity, which will inform future regulatory decisions.
 - (b) Calculate the applicable adjustments to allowed revenues in the following Regulatory Period which arise from differences between actual and forecast outcomes in the current Regulatory Period.

Content of the Regulatory Reporting Statements

- 21.3. Regulatory Reporting Statements for each RBE must comprise:
- 21.4. **Regulatory Financial Statements (RFS).** These will comprise pro-forma financial statements in the same format as Audited Financial Statements (AFS).
 - (a) **Financial Returns.** These will provide detailed information on actual relative to forecast costs and revenues, in a format prescribed by the Commission.
 - (b) **Physical Returns.** These will provide information on physical outputs and indicators, in a format prescribed by the Commission.
 - (c) **Explanatory document.** A description of the underlying calculations and assumptions used to prepare the RRS, including an explanation of significant variances between actual and forecast outcomes, and an explanation of where the RRS differs from the AFS and the implications of these differences.
- 21.5. The RFS may comprise the following financial statements and supporting documents:

- (a) A profit and loss account
- (b) A balance sheet
- (c) A statement of changes in equity
- (d) A cashflow statement
- (e) A corporate governance statement
- (f) A directors' report
- (g) An Auditor's Regulatory Report, as described in Section below
- (h) A detailed commentary about the operational performance of the RBE, encompassing (where relevant) network performance and performance against customer service standards. This commentary should be in the form of a review by management highlighting key areas of concern for the business and provide details of any programmes or revisions to processes to be implemented by the RBE to address these concerns.
- (i) Appropriate notes to clarify the above points.

RRS submission timing and formats

- 21.6. The RRS shall be submitted annually on or by 31 May.
- 21.7. The RBE shall submit the RFS in MS-Excel and MS-Word as appropriate, or in any other format as advised by the Commission.
- 21.8. The Financial Returns and Physical Returns shall be submitted using a template that is issued and updated from time to time by the Commission, in consultation with the RBE. This template shall be broadly consistent with the inputs to the Revenue Requirements Model.

Verification and auditing of the RFS

- 21.9. The information provided in the RFS must be adequately and independently audited by an auditor acceptable to and approved by the Commission. It shall be the responsibility of the RBE to ensure that such approval is obtained prior to the submission of the RFS.

- (a) For the avoidance of doubt, the other items in the RRS, namely Financial Returns and Physical Returns, do not need to be independently audited. However, the RBE shall use their best endeavours to ensure the Financial Returns and Physical Returns are consistent with the RFS.

21.10. The RBE must maintain accounting and reporting arrangements which:

- (a) Enable the RFS to be prepared.
- (b) Allow information in the RFS to be verified by reference to the audited financial statements.

21.11. The RBE should endeavour to propose an accredited auditor for approval by the Commission. However, where a RBE can demonstrate that an accredited auditor is unwilling or unable to conduct the audit, the entity may propose an independent consultant that specialises in regulatory matters and is approved by the Commission.

21.12. The approved auditor must prepare an Auditor's Regulatory Report to be submitted to the Commission with the RFS. This report must give the auditor's opinion as to whether the input data and underlying calculations and assumptions are consistent with these Guidelines issued by the Commission. In particular, the auditor should draw the attention of the Commission to:

- (a) Any deficiencies in accounting records that may make the information contained in the RFS of uncertain reliability.
- (b) Any significant deviations applied in the preparation of the RFS from the provisions of this Section 21.
- (c) A description of how expenditures and revenues for Regulated Services have been separated from expenditures and revenues for services provided by the RBE that are not subject to regulation (Excluded Services). This should highlight:
 - (i) Any differences between the cost allocation methodology used in the preparation of the RFS and any other cost allocation methodology used by the RBE for the audited financial statements or other purposes.

- (ii) Any inconsistencies found by the auditors between the RFS and the agreed cost allocation methodology together with the reasons for non-compliance, signed off by senior management of the RBE.
- (iii) Any other matter that may mean that the RFS do not provide a true and fair view of the costs, revenues, and assets of the RBE.

21.13. The provision of the Auditor's Regulatory Report does not remove the responsibility of the RBE for the preparation and submission of RFS, nor does it require the auditor rather than the RBE to assume liability in any form for any errors or omissions in the RFS, other than where such errors or omissions might reasonably have been expected to be identified during an audit conducted to the same standards as for the audit of audited financial statements. For the avoidance of doubt, the Auditor's Regulatory Report is in addition to any report or opinion required to be submitted with the audited financial statements of the RBE.

21.14. The RBE must make appropriate provision for the Commission to require from the Auditor further explanation or clarification of the Auditor's Regulatory Report and further information on the matters covered by the Auditor's Regulatory Report. Such requirements are subject to the requirement that they must not impose unreasonable obligations on the auditor.

Publication of the RRS

21.15. The RRS may be published by the Commission on its official website, except for:

- (a) A description of the underlying calculations and assumptions used to prepare the RRS.
- (b) Other material identified as being confidential by the RBE and accepted as such by the Commission.

21.16. The RBE must employ best endeavours to draw the attention of customers to the availability of the published RRS in a manner appropriate to ensure awareness.

Principles for preparing the RRS

- 21.17. The RRS shall be prepared in a manner that is consistent with these Guidelines and the Revenue Requirements Model. This includes applying the same principles and methodologies on revenue adjustments, cost and asset allocation, and cost calculation. Any inconsistencies between these Guidelines and the preparation of the RRS should be clearly documented and explained, including detailing the implications of the inconsistencies.
- 21.18. The RRS shall be prepared in accordance with the accounting principles and policies used to prepare the audited financial statements, adjusted for the differences where the accounting principles and policies used to prepare the audited statements differ from these Guidelines. Any such differences shall be clearly documented and explained, including detailing the implications of the differences.
- 21.19. In preparing the RRS, the RBE shall report the substance of transactions, rather than the legal form, if these differ. In determining the substance, the RBE shall consider the expectation of and motivation for a transaction. Individual transactions that achieve or are designed to achieve a common commercial effect shall be treated in aggregate.
- 21.20. Where possible, the RRS should be prepared using a consistent methodology over time. This particularly applies to the:
- (a) Methodology used to allocate costs.
 - (b) Capitalisation policy.
 - (c) Measurement of physical outputs.

Reporting of operating expenditure

- 21.21. In preparing and submitting information on operating expenditure in the Financial Returns, the RBE shall:
- (a) Distinguish between categories of expenditure advised by the Commission.
 - (b) Show operating expenditure both including and excluding Contracted-Out Services, by category of operating expenditure.

21.22. No expenses based on the provisions for impairment of fixed assets shall be included as operating expenditure. Any impairment should be treated as disposals in the Regulated Asset Base.

21.23. The RBE shall explain any significant variances between actual and allowed operating expenditure in their accompanying notes to the RRS. The Commission will determine the level of significance and inform the RBE sufficiently in advance of the relevant reporting year or period. Such explanations should include, but not be limited to, descriptions of any efficiency gains or losses.

Reporting of capital expenditure

21.24. In preparing and submitting information on capital expenditure in the Financial Returns, the RBE shall report capital expenditure in the following different formats:

- (a) **By each significant capital expenditure project.** Significant projects are defined as projects on which aggregate capital expenditure exceeds 5% of the RBE's total capital expenditure in the Regulatory Period. If a project is not deemed to be a significant project, then it should be reported as part of a programme of work.
- (b) **By asset category,** as approved by the Commission, which shall each have a different asset life and be used to calculate depreciation of the Regulated Asset Base.
- (c) **By cost driver category,** as advised by the Commission and where applicable to the RBE. These categories shall broadly differentiate between, but not be limited to:
 - (i) **Investment in new system assets to accommodate new generation and customer connections.**
 - (ii) **The upgrade of existing system assets to accommodate load growth and improve performance.**
 - (iii) **The repair of defects in existing system assets.**
- (d) **By physical output category,** as advised by the Commission and where applicable to the RBE. These categories shall be consistent with those in the Physical Returns submission.

- 21.25. The RBE shall clearly document and explain the allocation of capital expenditure between each category, where applicable.
- 21.26. The RBE shall explain any significant variances between actual and allowed capital expenditure, for each significant capital expenditure project, in their accompanying notes to the RRS. The Commission will determine the level of significance and inform the RBE sufficiently in advance of the relevant reporting year or period. Such explanations should include, but not be limited to, descriptions of any efficiency gains or losses.
- 21.27. Where actual capital expenditure is significantly below allowed capital expenditure, TNB's explanation of the variance shall include an estimate of the share of this negative variance attributable to the main potential causes. The main potential causes shall include, but not be limited to:
- (a) Deferral by the RBE
 - (b) Deferral, non-payment of charges or cancellation by the customer
 - (c) Delays in obtaining access to customer sites
 - (d) Delays in obtaining wayleaves or contractor failure
 - (e) Delays due to the RBE
 - (f) Delays in approval by relevant authorities or land owners, including but not limited to road concessionaires and rail services
 - (g) Delays due to circumstances beyond the RBE's control (noting the relevant specific circumstances).

Reporting of revenues

- 21.28. In preparing and submitting information on revenues in the Financial Returns, Customer Service shall report on:
- (a) Forecast and actual sales by customer group.
 - (b) Total and average revenue by customer group.
 - (c) The resulting average sales price.

21.29. Average revenues should be shown with and without the application of the AFA.

21.30. The reported revenues shall include all income derived from Regulated Services. As well as the sale of electricity, this may include, but is not limited to:

- (a) Connection fees, disconnection and reconnection charges.
- (b) Charges levied for providing stand-by or back-up power.

21.31. Customer Service shall explain any significant variances between actual and allowed revenues and between the actual and allowed average sales price, as applicable, in its accompanying notes to the RRS. Such explanations should include, but not be limited to:

- (a) Forecasting errors with respect to electricity sales.
- (b) Changes in share of sales by customer category.

Reporting of the Regulated Asset Base

21.32. In preparing and submitting information on the Regulated Asset Base in the Financial Returns, the RBE shall:

- (a) Roll forward the Regulated Asset Base in a manner that is consistent with Section 13 of these Guidelines and the Revenue Requirements Model; and
- (b) Roll forward the Regulated Asset Base separately for each asset category described in paragraph 21.24(b) above.

Reporting of related party transactions

21.33. The RBE shall detail all significant related party transactions included in the RRS. For this purpose, a significant related party transaction is defined as one where the annual value of payments for the supply of goods or services exceeds 1% of the total forecast revenues of each RBE in that year.

21.34. Where a RBE purchases or sells goods or services from a related party, it must demonstrate that:

- (a) The prices paid or received for these goods or services are reasonable and at fair market value.
- (b) The goods or services are provided at no extra cost than if they were provided from within the RBE's business.
- (c) No cross-subsidy exists between the RBE and other parts of the related entity's business.

21.35. At a minimum, this requires:

- (a) The contract for the supply of goods or services to be awarded through a fair and non-discriminatory competitive tendering process in which three or more bids were received; or
- (b) The price paid for the supply of goods and services should be based on actual costs of supply plus an appropriate rate of return on the capital employed.

21.36. Asset transfers between RBE and related parties shall be at the depreciated value implied in the Regulated Asset Base of the relevant entity, calculated based on:

- (a) The year the asset was brought into service; and
- (b) The applicable asset life used for depreciation of the applicable asset category in the Regulated Asset Base of the relevant entity.

Joint and common costs

21.37. Joint and common costs associated with the provision of corporate services shall be separately recorded in total and as allocated between the RBE. The reporting of the total costs of the corporate entity/ies shall be consistent with the requirements for reporting for individual RBE.

21.38. If any changes are made to the cost allocation methodology within a Regulatory Period from those applied at the time of calculating Annual Revenue Requirements, then:

- (a) The RRS shall clearly identify and describe the changes made, the justification for these and the impacts on cost allocation to and between RBE.

- (b) For the remainder of the Regulatory Period, the RFS shall be presented using both the allocation methodology applied for calculating Annual Revenue Requirements and with the changed methodology, in order to allow consistent comparisons of costs and revenues over the Regulatory Period.
- (c) For the subsequent Regulatory Period, the Commission will determine whether the changes in the cost allocation methodology should be applied.

END OF SECTION

22. Definitions

- 22.1. Unless expressly indicated to the contrary or unless the context otherwise requires, terms adopted and used in these Guidelines shall bear the same meaning as they are defined in the Electricity Supply Act 1990, including any modification, extension or re-enactment thereof and any subsidiary legislation made there under.
- 22.2. In these Guidelines, the following words shall have the following meanings ascribed to them:

Forms of tariff regime

- (i) “Bundled” in these Guidelines refers to the tariff regime in effect during the period when the responsible Minister approves an average tariff for TNB as a whole
- (ii) “Unbundled” in these Guidelines refers to the tariff regime in effect during the period when the responsible Minister approves an average tariff for each individual RBE and the average tariff for TNB as a whole is calculated as the sum of these individual approved tariffs and the Average Generation Cost

Other definitions

- (iii) “Allowed Average Tariff” means the maximum average revenue that a RBE may earn from tariffs charged for Regulated Services
- (iv) “Allowed Revenue” means the average revenues in a Regulatory Period required to recover the efficient costs of a RBE including a reasonable return on its investments
- (v) “Annual Regulatory Adjustment” means the adjustments in any one year that comprises Revenue-Cap and Price-Cap Adjustment

- (vi) “Annual Revenue Requirement” means the revenues in any one year required to recover the efficient costs of a RBE including a reasonable return on its investments
- (vii) “Average Generation Cost” means the approved forecast average cost of power purchases, which includes Energy and Capacity costs during a Regulatory Period
- (viii) “Base Average Tariff” means the approved average tariff for a Regulatory Period and is constant in all years of that period
- (ix) “Commission” means the Energy Commission
- (x) “Customer Services” means the RBE responsible for supplying and selling electricity to, and managing the interface with, final consumers of electricity
- (xi) “Distribution” means the RBE responsible for planning, investing in, maintaining, and undertaking the real-time operation and control of the electricity distribution system, that is, the system of lines, substations, and related equipment and buildings below 132kV
- (xii) “Grid System Operator” means the RBE responsible for system security, operational planning, the dispatch of generating units, real-time operation and control of the power system, and coordinating all parties connected to the Grid System in accordance with the Malaysian Grid Code
- (xiii) “Automatic Fuel Adjustment (AFA)” means the adjustment calculated on a monthly basis and applied to recover the differences between the updated forecast energy cost and those forecasted at the time of approving the Average Generation Cost for each Regulatory Period (RP). AFA also includes generation cost true-up adjustments for the preceding month (m-3, which is the variance between the actual Generation cost and updated forecast Generation cost).
- (xiv) “Incentive-Based Regulation” or “IBR” means a form of regulation where regulated entities are able to earn additional profits if they out-perform relative to the expected costs of

delivering a given quality of service and, conversely, where under-performance results in reduced profits

- (xv) “Other Income” means income not directly related to electricity supply, but which derives from the use of assets and/or staff of a licensee engaged in electricity supply
- (xvi) “Price-Cap” means a form of regulation where the average revenue earned by TNB under a Bundled tariff regime or by a RBE under an Unbundled tariff regime cannot exceed a cap
- (xvii) “Price-Cap Adjustment” means an annual adjustment to ensure that, under a Bundled tariff regime, TNB complies with its Price-Cap and, under an Unbundled tariff regime, that a Price-Cap RBE complies with its Price-Cap
- (xviii) “Price-Cap RBE” means a RBE regulated under a Price-Cap in an Unbundled tariff regime
- (xix) “Regulated Asset Base” means the value of fixed assets invested in by a RBE and on which it is permitted to earn a return
- (xx) “Regulated Business Entity” or “RBE” means an entity whose revenues and tariffs are regulated under these Guidelines
- (xxi) “Regulated Services” means the services related to electricity sales which are provided by a RBE under Regulated Tariffs
- (xxii) “Regulated Tariffs” means the tariffs and charges applied for the provision of the Regulated Services and which are regulated under these Guidelines
- (xxiii) “Regulatory Period” means the period for which a Base Average Tariff is determined
- (xxiv) “Revenue-Cap” means a form of regulation where a RBE earns its Allowed Revenue in each year and where its Regulated Tariffs may be adjusted to ensure compliance with this requirement if actual sales volumes differ from the forecast used to calculate the Base Average Tariff

- (xxv) “Revenue-Cap Adjustment” means an annual adjustment to ensure that a Revenue-Cap RBE complies with its Revenue-Cap
- (xxvi) “Revenue-Cap RBE” means an RBE regulated under a Revenue-Cap
- (xxvii) “Single Buyer” means the RBE responsible for managing the procurement of electricity and related services, including long-term planning, scheduling, procuring and settling electricity supply in accordance with the Guidelines for Single Buyer Market (Peninsular Malaysia) and the Malaysian Grid Code for Peninsular Malaysia.
- (xxiii) “Single Buyer Generation” means the costs of the Single Buyer related to power purchases
- (xxix) “Single Buyer Operations” means the costs of the Single Buyer’s own operations, excluding those of power purchases
- (xxx) “Tariff Table” means the list of individual tariffs for Regulated Services as published by the licensee for every regulatory period
- (xxxi) “Transmission” means the RBE responsible for planning, investing in, operating and maintaining the electricity transmission network, that is, the system of lines, substations and related equipment at 132kV and above
- (xxxii) “Weighted Average Cost of Capital” means the estimated efficient cost of financing of a RBE, and which represents its allowed reasonable return

END OF SECTION

Annex: Formula terms and notations

This annex lists the terms and notations used in the various formula contained in these Guidelines for ease of reference.

Terms

β_{equity}	Equity Beta
ACAP	Actual Capital Expenditure
ADCC	Average Daily Coal Purchase Costs
AFA	Automatic Fuel Adjustment
AGEC	Average Generation Cost
ALLW	Allowed Average Tariff
AQUS	Actual total qualifying sales to which the AFA is applied
ATGC	Actual Total Generation Cost
AREV	Actual total bundled revenues earned from provision of regulated services
ASAL	Actual total electricity sales
AVGE	Actual Average Tariff
BASE	Base Average Tariff
CADP	Average Days Payables for Coal Purchase Costs by TNB
CADR	Average Days Receivables for Coal Fuel Costs paid to TNB by generators
COAL	Net Cost of Coal Purchases
CORR	Correction Factor
CPEX	Forecast Capital Expenditure that is operationally commissioned
DEPN	Allowed Depreciation
DISP	Net Value of Fixed Assets Disposed
DOMS	Share of Sales to Domestic Customers with consumption of less than 300 kWh per month
DRTN	Nominal Cost of Debt
ECSO	Allowed Opex Efficiency Carry-Over Scheme Adjustment
ECSX	Allowed Capex Efficiency Carry-Over Scheme Adjustment
EIF	Electricity Industry Fund
EQUS	Estimated total qualifying sales to which the AFA is applied

EREV	Estimated Total Bundled Revenues
ERTN	Nominal (after-tax) Return on Equity
ESAL	Actual total electricity sales
FCAP	Forecast Capital Expenditure
FEYC	Total Forecast Energy Cost
FFAFA	Forward Forecast Automatic Fuel Adjustment
FFGC	Total Forecast Fixed Generation Cost
FGEC	Total Forecast Generation Cost
FSAL	Forecasted total electricity sales
GAIN	Incremental Efficiency Gain/Loss
GEAR	Gearing (share of net debt in the sum of net debt and equity)
IFUC	Interim Fuel Cost Pass-Through Adjustment
IGSC	Interim Other Generation Cost Pass-Through Adjustment
JOIN	Allocated Joint and Common Costs
LIFE	Average Asset Life
MRP	Market Risk Premium
OPEX	Allowed Operating Expenditures
OTHA	Actual other income
OTHE	Estimated other income
OTHR	Other Income Adjustment
PCAP	Price-Cap Adjustment
PDIF	Difference between Actual and Allowed Average Revenues (TNB)
PERF	Incentive/Penalty for performance against individual quality of service KPI
PSLS	Price-Cap Sales Adjustment
RAB	Allowed Closing Regulated Asset Base at the end of the year
RATE	Corporation Tax Rate
RCAP	Revenue-Cap Adjustment
RDIF	Price-Cap Revenue Difference
REQT	Annual Revenue Requirement
RFR	Risk-Free Rate

RSLs	Revenue-Cap Sales Adjustment
SERV	Quality of Service Incentives Adjustment (incentive or penalty)
TAXZ	Allowed Corporate Tax and Zakat
TUAFA	Automatic Fuel Adjustment True-Up
UGEN	Updated Total Generation Cost
UNPX	Unpredictable Capital Expenditures
UPOX	Unpredictable Opex Adjustment
UPXA	Actual unpredictable opex
UPXF	Forecast of unpredictable opex included in the annual revenue requirement
USAL	Updated forecast of total actual electricity sales
VCAFA	Automatic Fuel Adjustment Volume Correction
WACC	Weighted Average Cost of Capital
WCRR	Working Capital Remuneration Rate
WORK	Working Capital Allowance

Notation

b	(as modifier ahead of term) Bundled
e	RBE
P	Regulatory Period
m	Calendar month, expressed in relation to the month in which an adjustment takes effect
n	Year (1 January to 31 December) in the previous Regulatory Period
N	Total number of years in the previous Regulatory Period
pc	Price-Cap Entity
q	Individual quality of service KPI
Q	Total number of quality of service KPIs in the previous Regulatory Period.
rc	Revenue-Cap Entity
t	Year (1 January to 31 December) in the current Regulatory Period
T	Total number of years in the current Regulatory Period
u	(as modifier ahead of term) Unbundled

ATTACHMENTS

The following attachments are provided for explanatory purposes only. They do not form part of these Guidelines. In the case of any discrepancy between these Guidelines and these attachments, these Guidelines prevail.

Attachment to Sections 5 and 6

Example of Price-Cap with and without under-recovery

Without under-recovery allowance

sen/kWh	Over-recovery		Under-recovery	
	Allowed tariff < Average revenue		Allowed tariff > Average revenue	
	PCAP = ALLW – AVGE		PCAP = 0	
Allowed tariff (year t-1), ALLW	39.45	39.45	39.45	39.45
Average revenue (year t-1), AVGE	40.24	41.09	38.66	37.87
Difference	+0.79	+1.64	-0.79	-1.64
	+2%	+4%	-2%	-4%
Price-cap adjustment (year t), PCAP	39.45 – 40.24 = -0.79	39.45 – 41.09 = -1.64	0	0

For clarity, adjustments for time value of money and revenue-cap adjustments are ignored

With under-recovery allowance

sen/kWh	Over-recovery		Under-recovery	
	Allowed tariff < Average revenue		Allowed tariff > Average revenue	
	PCAP = ALLW – AVGE		PCAP = max(2.5% * BASE, AVGE – ALLW)	
Allowed tariff (year t-1), ALLW	39.45	39.45	39.45	39.45
Average revenue (year t-1), AVGE	40.24	41.09	38.66	37.87
Difference	+0.79	+1.64	-0.79	-1.64
	+2%	+4%	-2%	-4%
Price-cap adjustment (year t), PCAP	39.45 – 40.24 = -0.79	39.45 – 41.09 = -1.64	39.45 – 38.66 = 0.79	2.5% * 39.45 = 0.99

Attachment to Section 16

Example of Opex Efficiency Carry-Over Scheme adjustment calculation

This annex presents an illustrative example of the calculation of adjustments under the operating expenditure Efficiency Carry-Over scheme.

Calculation of incremental efficiency gain in previous Regulatory Period		Year (n)		
		1	2	3
Allowed Opex	$OPEX_n$	100	95	90
Actual Opex	$AOPX_n$	96	92	85
Difference	$(OPEX_n - AOPX_n)$	4	3	5
Incremental Efficiency Gain / Loss	$GAIN_n$	4	(1)	2

Carry-forward of incremental efficiency gains		Previous Regulatory Period (P-1)			Current Regulatory Period (P)		
		Year (n)			Year (t)		
		1	2	3	1	2	3
Incremental Gain in year n = 1	$GAIN_1$		4	4	4		
Incremental Gain in year n = 2	$GAIN_2$			(1)	(1)	(1)	
Incremental Gain in year n = 3	$GAIN_3$				2	2	2
Total gains carried-forward by year	$\sum GAIN_n$				5	1	2

Calculation of annual ECS adjustment			Total
Total carry-forward in Regulatory Period P	$\sum GAIN_{n,t}$		8
Number of years	T_P		3
Annual ECS adjustment	$ECSO_t$		2.7