

Renewable Energy

Here Comes the Sun: Development of the Solar Energy Industry in Malaysia

The Ministry of Energy, Science, Technology, Environment and Climate Change has set an ambitious goal for 20% of the country's electricity to be generated from renewable sources by 2030, an increase from the previous 2%. To that end, the government has said that it will continue promoting the generation of solar power in the renewable energy mix via large scale solar power projects and the net energy metering scheme.

3rd Bidding Round for Large Scale Solar (LSS) Photovoltaic Plants

The most prominent of the existing renewable energy programmes would no doubt be the LSS tender which was first introduced by the Energy Commission of Malaysia ("EC") in 2016. The LSS tender is a competitive open bidding process in which the EC invites persons with the relevant industry experience, suitable technical and financial capabilities and related resources to develop, operate and maintain large scale solar photovoltaic ("PV") power plants in Peninsular Malaysia and Sabah. Foreign participation is allowed but is capped at 49% equity interest in the bidding consortium. The third bidding round is expected to open in early 2019 with the total aggregate capacity of 500MW being offered for the round. For reference, the first LSS tender was held in 2016, with capacity packages ranging from 1MWac up to a maximum of 50Mwac, while the second LSS tender was held in 2017, with capacity packages ranging from 1MWac up to a reduced maximum of 30Mwac.

For the first two bidding rounds, the EC had suggested a reference price of RM0.41/kWh based on its estimate of the prevailing market conditions and normal connection requirements. Bidders were advised to take heed of the reference price as the EC reserved its right not to accept any bid with an offer price exceeded the reference price. Set out below are the five capacity packages offered during the most recent (second LSS) bidding round, together with the range of prices and number of bids submitted by bidders for each of the packages.

	'Raw' offer prices (RM/kWh) / No. of bids	No. of Shortlisted Bids
Peninsular Malaysia		
Package P1: 1.00MWac to 5.99MWac	0.3750 - 0.4700 / (25 bids)	6 bids
Package P2: 6.00MWac to 9.99MWac	0.3700 - 0.4600 / (18 bids)	11 bids
Package P3: 10.00MWac to 30.00MWac	0.3398 - 0.5000 / (43 bids)	13 bids
Sabah / Labuan		
Package S1: 1.00MWac to 5.99MWac	0.3710 - 0.5300 / (19 bids)	8 bids
Package S2: 6.00MWac to 10.00MWac	0.3900 - 0.4900 / (12 bids)	3 bids

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Foreign participation in the LSS programme has been encouraging and among the successful bidders in the previous rounds were consortiums formed by international solar power project developers such as BayWa re, Scatec Solar, Hanwha Energy Corporation and ConstantEnergy, and their respective local partners. The expected increase in foreign participation in future bidding rounds bodes well for the development of the solar energy industry, particularly if the foreign players are established international developers who will be able to bring to Malaysia industry expertise and best practices.

Improved Net Energy Metering (NEM) Scheme

NEM is a mechanism which allows electricity consumers in Peninsular Malaysia and Sabah to sell excess electricity generated from their solar PV systems back to the grid. This scheme is applicable to all consumers in the domestic, commercial and industrial sectors who are customers of Tenaga Nasional Berhad (“TNB”) or Sabah Electricity Sdn. Bhd. Among its benefits is that it allows consumers to import less energy from the grid, save on electricity bills, and export excess electricity back to the grid for credit to reduce electricity bills even further.

The government has announced several initiatives to improve the NEM scheme which had, until recently, experienced a low take-up rate of approximately 4% of the 500MW quota allocated for the period of 2016 - 2020. This was due to the lower selling price of RM0.31/kWh compared to the tariffs charged by the utilities ranging from RM0.218/kWh to RM0.571/kWh. Beginning 1 January 2019, excess electricity will be exported back to the grid on a one-to-one basis, i.e. there will be no difference between the selling and buying price of the electricity. However, this new NEM scheme is only applicable to Peninsular Malaysia and only to TNB customers.

Introduction of the Supply Agreement for Renewable Energy (SARE) Programme

The government has also recently introduced the SARE programme as one of the improvements to the NEM scheme. The main thrust of the programme is that it makes participation in the NEM scheme more affordable as consumers need not incur substantial upfront cost to install the solar PV system. Instead, the SARE programme allows the consumer (as the lessee), the investor/owner (i.e. the company which owns and leases the solar PV system to the consumer) and the utility (such as TNB) to agree on the arrangement in which the leasing fee may be paid to the investor/owner via electricity bills. Generally, this arrangement will see the investor/owner earning its profit from a portion of savings that the consumer enjoys from participating in the NEM scheme.

Companies that wish to participate as an investor in the programme must first be registered with the Sustainable Energy Development Authority Malaysia (“SEDA”). Applicants must be Malaysia-incorporated companies, with Malaysian-controlled companies (“**Local Companies**”) required to have a minimum paid-up capital of RM1,000,000 while foreign -controlled companies (“**Foreign Companies**”) are required to have a minimum paid-up capital of RM10,000,000. Local Companies are required to have 100% local engineering, procurement and construction capabilities by appointing SEDA-registered

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service providers, while not only are Foreign Companies subject to that same condition, they can only participate in projects with a capacity exceeding 250 kWac and must also ensure that at least 80% of the company's employees are local workers.

The stable regulatory framework and accommodative climate conditions will continue to spur the development of the solar energy industry, and we expect the coming LSS bidding round and improved NEM scheme to further add to the pace of growth of the industry.

2 January 2019

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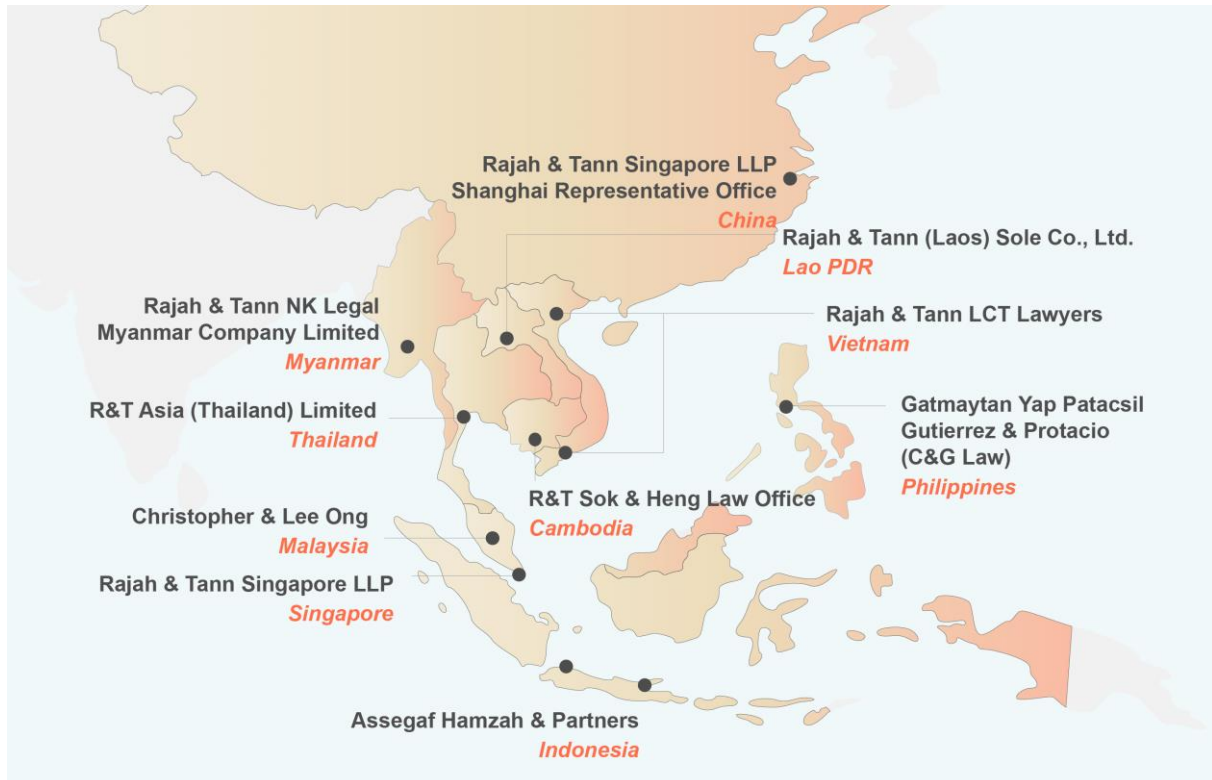
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