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Malaysia's Large Scale Solar 4 / LSS@MEnTARI: Analysis of Results

Introduction

As we had previously written in our Client Update on "Large Scale Solar Power Plants – Fourth Competitive Bidding Round (LSS@MEnTARI), available [here](#), Malaysia's fourth competitive bidding programme (dubbed the LSS@MEnTARI and generally referred to by the industry as "LSS4") for the development of large-scale solar ("LSS") power plants was launched at the end of May 2020, with bid closing scheduled for 5.00pm, 2 September 2020. The programme deviated from the past three rounds in that this was the first time that participation was limited only to Malaysians. The previous three LSS rounds allowed foreign parties to hold up to 49% of the equity interest whereas the criteria for this round came as a surprise to many, as participation was open only to locally-incorporated companies 100% owned by Malaysians and companies listed on the local stock exchange (Bursa Malaysia) which have at least 75% of their shares held by Malaysians. There was speculation that this would result in a reduced number of bids, but bid opening prices released by the Energy Commission of Malaysia ("EC") indicated otherwise, as there were 137 bids in total (138, if including a bid for a plant of 7MWa.c., which was under the P1 Package (10MWa.c. – 29.99MWa.c.)), with 45 of the bids submitted for plants with the proposed capacity of between 10MWa.c. to 29.999MWa.c. and 93 of them submitted for plants with the proposed capacity of between 30MWa.c. - 50MWa.c.

There was some confusion during the LSS4 clarification period as to whether foreign participation would be allowed, as the EC had indicated in some of the clarifications that foreign participation would be permitted as long as it is via "*non-convertible preference shares with debt characteristics and no voting rights are allowed*" ("**First Response**"). However, closer to the bid closing date, the EC then clarified that "*any financial or debt instruments including but not limited to preference shares for LSS@MEnTARI project can only be issued to and subscribed by Local Company or Malaysian individual*" ("**Second Response**"). The confusion was further compounded by the fact that the First Response and Second Response were set out in a single response box, and there was no indication that the latter was intended to cancel out the First Response.

Eyebrows were also raised when the LSS4 results were not released by the end of 2020, as results are traditionally announced at the end of the year in which the bidding round is held to allow shortlisted bidders sufficient time to commence work with an aim of achieving financial close by end of September of the following year (being the EC prescribed deadline). With the results announced on 12 March 2021, being an approximately three month delay compared to the usual timeline, it remains to be seen whether the EC will extend the dates/period for shortlisted bidders to achieve financial close and the respective scheduled commercial operation dates.

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Results of LSS4, and a Recap of the Results of LSS2 and LSS3

In line with international trends, the LSS4 bid opening prices and results show an aggressive decline in bid prices. We set out below a recap of the bid prices for LSS2 and LSS3 together with a breakdown of the bid prices for LSS4.

LSS2

To recap, during the LSS2 bidding round in 2017, the EC had suggested a reference price of RM0.41/kWh based on its estimate of the prevailing market conditions and normal connection requirements. The offer prices, number of bids submitted and shortlisted bids (successful bids) were as follows:

LSS2 Packages	'Raw' offer prices (RM/kWh)	No. of Bids Submitted	No. of Shortlisted Bids
Peninsular Malaysia			
Package P1: 1.00MWa.c. to 5.99MWa.c.	0.3750 - 0.4700	25	6
Package P2: 6.00MWa.c. to 9.99MWa.c.	0.3700 - 0.4600	18	11
Package P3: 10.00MWa.c. to 30.00MWa.c.	0.3398 - 0.5000	43	13
Sabah / Labuan			
Package S1: 1.00MWa.c. to 5.99MWa.c.	0.3710 - 0.5300	19	8
Package S2: 6.00MWa.c. to 10.00MWa.c.	0.3900 - 0.4900	12	3
Total		41/117 bids were awarded	

LSS3

Following that, the EC then reduced the reference price to RM0.3240/kWh for the LSS3 bidding round (which was for Peninsular Malaysia projects only) in 2019 but removed the separation of capacity packages, i.e. there was only a single category and bids could be for plants from 1MWa.c. up to 100MWa.c. Bidding was aggressive and, ultimately, there were only 5 shortlisted bidders (consortiums of entities) amongst 112 bids, and amongst the 5 shortlisted bidders, 4 of them were consortiums with links to foreign players. Many local players were understood to be disgruntled that only 5 bids were shortlisted as that would mean fewer jobs available to be parcelled out, and especially with the fact that a majority of the shortlisted bidders were foreign-linked consortiums.¹

For reference, we have categorised the bid prices received during LSS3 according to the LSS4 capacity packages as follows.

¹ The Edge: Response to 1,400MW Solar Jobs could be Lukewarm, <https://www.theedgemarkets.com/article/response-1400mw-solar-jobs-could-be-lukewarm>

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LSS3 Bid Prices Peninsular Malaysia only			
Range of Capacity (Split according to LSS4 categories)	Lowest Bid Price (Plant Capacity)	Next Lowest Bid Price (Plant Capacity)	No. of Bids Submitted
10MWa.c. - 29.99MWa.c.	RM0.2339/kWh (29.9MWa.c.)	RM0.2500/kWh (23.4MWa.c.)	15
30MWa.c. - 50MWa.c.	RM0.2340/kWh (50MWa.c.)	RM0.2477/kWh (40MWa.c.)	13
Overall	RM0.17777/kWh (100MWa.c.)	RM0.2297/kWh (75MWa.c.)	112

LSS4

The LSS4 (also for Peninsular Malaysia projects only), which was launched in the midst of the Covid-19 pandemic with an aim to stimulate the recovery of the economy, was widely seen as a move to allow bidders (particularly local bidders) who were unsuccessful during LSS3 to repurpose their submission packages and, more particularly, the restriction on foreign participation was seen not only as a move to encourage the participation of local solar industry players but also a protectionist move to address complaints raised by local players regarding the LSS3 results mentioned above. It is to be noted that the EC did not set any reference price for LSS4 and the segregation of capacities was reimplemented.

The LSS4 results issued by the EC on 12 March 2021 show that it has shortlisted 30 out of the 137 bids received and awarded projects of an aggregate of 823.06MWa.c. (out of the 1,000MWa.c. offered in the RFP).

LSS4 Peninsular Malaysia only	'Raw' offer prices (RM/kWh)	No. of Bids Submitted	No. of Shortlisted Bids
Package P1: 10MWa.c. - 29.999MWa.c.	0.1786 - 0.2481	44	20 (Price range from RM0.1850/kWh to RM0.2481/kWh)
Package P2: 30MWa.c. - 50MWa.c.	0.1399 - 0.2388	93	10 (Price range from RM0.1768/kWh to RM0.1970/kWh)
Total			30/137 bids were awarded

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Analysis of Results of LSS4

LSS4 – A Mix of Winners

Among the shortlisted bidders of LSS4 are some familiar names in the solar industry such as Solarvest Holdings Berhad (via Atlantic Blue Sdn. Bhd.), KPower Berhad (via its consortium with Perbadanan Kemajuan Negeri Pahang) and Tenaga Nasional Berhad (via TNB Renewables Sdn. Bhd.), together with several listed companies who are new entrants to the power industry (particularly solar). Some of them are listed in the table below.

At first glance, their involvement in LSS projects indicates that these listed companies are on the lookout to diversify their revenue streams. However, large scale solar projects are not known to give high returns and project IRRs usually hover around the high single-digit range. A closer look suggests that these companies are primarily involved in what are known as “brown” industries and that their involvement in the solar industry could portend a shift by them in adopting a more ESG-conscious approach in their businesses or activities. The fact that a majority of the shortlisted bidders under the P2 Package (30MWa.c. – 50MWa.c.) have listed companies as parent entities could also reflect that listed entities have a better chance at securing awards due to the strength of their balance sheets.

Listed Company	Primary Business	Bidder	Capacity Awarded
MK Land Holdings Berhad	Property Development	MK Land Resources Sdn. Bhd.	10.95MWa.c.
Tan Chong Motor Holdings Berhad	Automotive	Tan Chong Motor Assemblies Sdn. Bhd., APM Shock Absorbers Sdn. Bhd. and TCIM Sdn. Bhd.	20MWa.c.
Uzma Berhad	Oil & Gas	Uzma Environergy Sdn. Bhd.	50MWa.c.
Ranhill Utilities Berhad	Water Supply, Services and Treatment	Ranhill Utilities Berhad	50MWa.c.
JAKS Resources Berhad	Conventional Power, Construction and Property	JAKS Solar Power Sdn. Bhd.	50MWa.c.
Gopeng Berhad	Oil Palm Plantation	Gopeng Berhad	50MWa.c.

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Quality of Bids/Bidders

A curious feature of this LSS4 is that the EC only shortlisted bids of up to an aggregate capacity of 823.06MWa.c. when it had initially called for bids to develop 1,000MW.a.c. of LSS plants. The shortfall can be attributed to the fact that awards made under the P1 Package did not in aggregate amount to the 500MWa.c. capacity which was offered under that package, with the shortfall of 176.94MWa.c. being quite a huge variance. The amount of shortfall, if applied towards the P2 Package, could have seen an additional three to six projects being awarded.

Some industry players have intimated that the fact that awards under the P1 Package have not met the targeted amount gives the impression that bids submitted under that package may have been of a lower standard compared to those submitted under the P2 Package. There may be some truth in that as the targeted amount of 500MWa.c. under the P2 Package was met with all awards made to projects of 50MWa.c., being the maximum capacity on offer, and for bid prices which are more aggressive compared to bid prices of shortlisted bids under the P1 Package. One of the reasons could be that bids under the P1 Package would also not be as financially attractive as under the P2 Package as projects under the P1 package are smaller and would not have the economies of scale compared to projects under the P2 package, Hence, serious players (those generally considered as better placed to submit more compelling bids) would not be as interested in participating under the P1 Package.

Conclusion

The EC appears to have met the aim of parcelling out LSS4 awards on a more “equitable” basis to local players, with the consequent result of there being more jobs for local contractors. However, it may have come at a price as the EC’s actions in prohibiting foreign participation has been widely viewed as a protectionist move which does not augur well for the economy in general when the nation sorely requires more foreign direct investment, especially if such investment brings with it opportunities for local players to learn from some of the best practices that could be introduced by foreign participants.

It is hoped that the EC could, in its future programmes, not only discard the protectionist stance but also structure the programmes such that awards are made with an aim of achieving maximum benefit for the nation and not only to placate those who, but for the way the LSS4 programme was structured, would not have been able to compete on an even playing field with the rest.

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Please feel free to get in touch with any of the individuals listed below should you have any questions or require any additional information on the above or on matters relating to renewable energy in Malaysia.

Contacts



Christopher Lee
Partner

T +60 3 2267 2672
F +60 3 2273 8310
[christopher.lee](mailto:christopher.lee@christopherleeong.com)
[@christopherleeong.com](mailto:christopher.lee@christopherleeong.com)



Chor Jack
Partner

T +60 3 2267 2729
F +60 3 2273 8310
[jack.chor](mailto:jack.chor@christopherleeong.com)
[@christopherleeong.com](mailto:jack.chor@christopherleeong.com)

Contribution Note: This Client Update was written with contributions from Ng Chen Lynn (Associate) and Lim Ziyi (Associate).

Our Regional Contacts

RAJAH & TANN | *Singapore*

Rajah & Tann Singapore LLP

T +65 6535 3600
sg.rajahtannasia.com

R&T SOK & HENG | *Cambodia*

R&T Sok & Heng Law Office

T +855 23 963 112 / 113
F +855 23 963 116
kh.rajahtannasia.com

RAJAH & TANN 立杰上海

SHANGHAI REPRESENTATIVE OFFICE | *China*

**Rajah & Tann Singapore LLP
Shanghai Representative Office**

T +86 21 6120 8818
F +86 21 6120 8820
cn.rajahtannasia.com

ASSEGAF HAMZAH & PARTNERS | *Indonesia*

Assegaf Hamzah & Partners

Jakarta Office

T +62 21 2555 7800
F +62 21 2555 7899

Surabaya Office

T +62 31 5116 4550
F +62 31 5116 4560
www.ahp.co.id

RAJAH & TANN | *Lao PDR*

Rajah & Tann (Laos) Co., Ltd.

T +856 21 454 239
F +856 21 285 261
la.rajahtannasia.com

CHRISTOPHER & LEE ONG | *Malaysia*

Christopher & Lee Ong

T +60 3 2273 1919
F +60 3 2273 8310
www.christopherleeong.com

RAJAH & TANN | *Myanmar*

Rajah & Tann Myanmar Company Limited

T +95 1 9345 343 / +95 1 9345 346
F +95 1 9345 348
mm.rajahtannasia.com

GATMAYTAN YAP PATACSIL

GUTIERREZ & PROTACIO (C&G LAW) | *Philippines*

Gatmaytan Yap Patacsil Gutierrez & Protacio (C&G Law)

T +632 8894 0377 to 79 / +632 8894 4931 to 32
F +632 8552 1977 to 78
www.cagatlaw.com

RAJAH & TANN | *Thailand*

R&T Asia (Thailand) Limited

T +66 2 656 1991
F +66 2 656 0833
th.rajahtannasia.com

RAJAH & TANN LCT LAWYERS | *Vietnam*

Rajah & Tann LCT Lawyers

Ho Chi Minh City Office

T +84 28 3821 2382 / +84 28 3821 2673
F +84 28 3520 8206

Hanoi Office

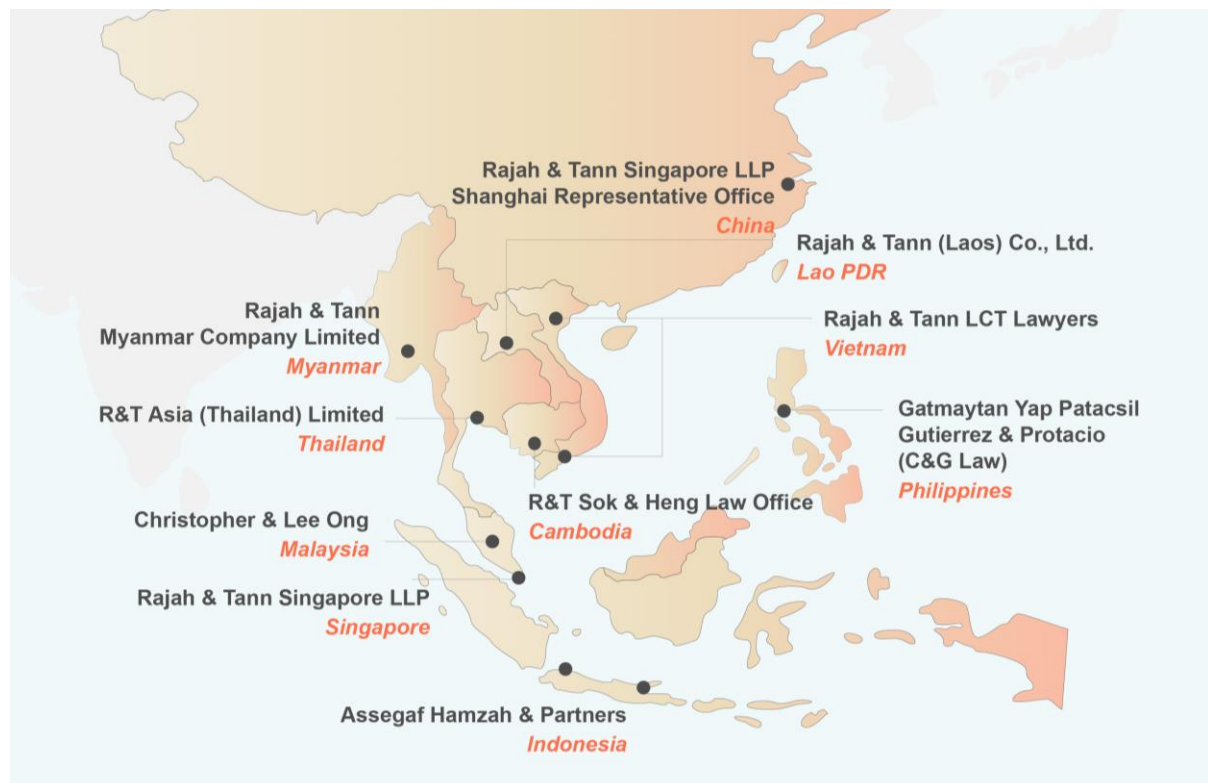
T +84 24 3267 6127
F +84 24 3267 6128
www.rajahtannlct.com

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