
Infrastructure, Energy & Resources

Malaysia's Corporate Green Power Programme: Virtual Power Purchase To The Fore

Introduction

Following the teasers in the announcement by the Prime Minister of Malaysia in August 2022 and the launching of the National Energy Policy 2022 - 2040 in September 2022, the Corporate Green Power Programme (“**CGPP**”) was finally launched by the Energy Commission of Malaysia on 7 November 2022.

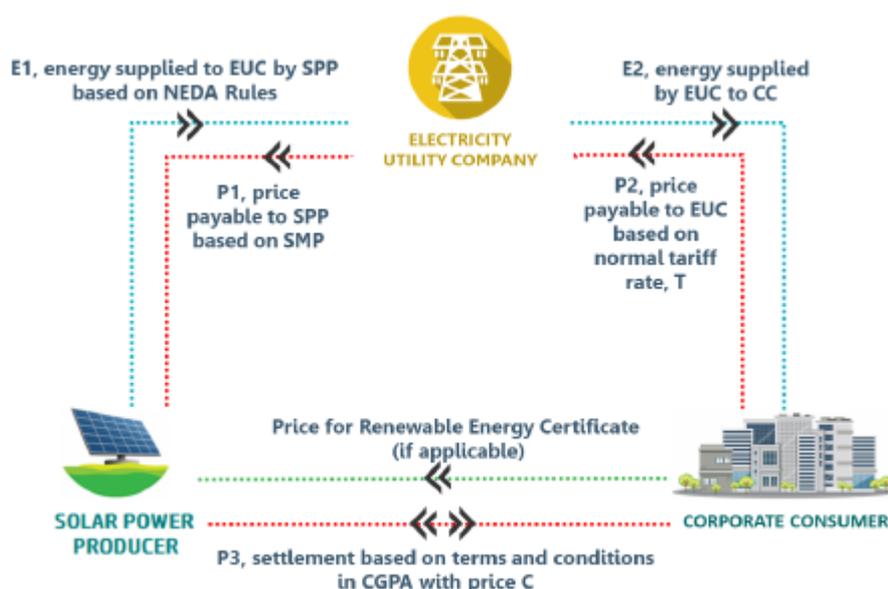
The CGPP is essentially a programme which allows eligible corporate consumers (“**CC**”) to enter into power purchase agreements with solar power producers (“**SPP**”) for the purchase of renewable energy virtually instead of via direct delivery. In this structure:

- SPP owns and operates the solar power plant and exports the energy generated from the plant to the grid/electricity utility company (“**TNB**”);
- TNB will pay the SPP for the energy exported to the grid based on the system marginal price (“**SMP**”), which is the price determined by the Single Buyer based on the relevant rules and guidelines. The environmental attributes from the energy generated and sold will not pass to TNB;
- the CC will enter into an agreement, i.e. the virtual power purchase agreement (“**VPPA**”) with the SPP, under which the CC will agree to virtually purchase the energy produced by the SPP based on an agreed price (“**Fixed Price**”). The SPP and CC can agree in the VPPA that the environmental attributes for the energy purchased will be transferred to/vest in the CC.

In practice, the physical energy will still be delivered by TNB to the CC and the CC will continue paying TNB for such energy at the prevailing market tariff – there is no change to the relationship between the CC and TNB. The arrangement, where the CC and the SPP agree that the environmental attributes for the energy purchased will be transferred to/vest in the CC, allows the CC to claim that its energy usage (equivalent to the amount contracted under the VPPA) is obtained from renewable sources;

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- the settlement mechanism under the VPPA will provide that, if the Fixed Price is lower than the SMP, then the SPP will pay to the CC the difference; if the Fixed Price is higher than the SMP, then the CC will pay to the SPP the excess.



Source:
Information Guide
For Corporate Green Power Programme
(For Solar PV Plant)
Issued by the Energy Commission of Malaysia

We set out below a summary of the features of the CGPP and eligibility conditions which apply to SPP and CC should they wish to participate in the programme.

Features of the CGPP

1. **Quota:** The CGPP offers a quota of 600MW, which may be applied for by SPP from the Single Buyer.
2. **Application Period:** Applications open from 7 Nov 2022 to 6 February 2023, subject to availability of quota.

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3. **Plant size:** Each plant must be between 5MW to 30MW, and must be a greenfield project and not an existing one.
4. **Nature of plant:** Solar power plant.
5. **Battery Energy Storage System (BESS):** It is strongly encouraged that each plant be installed with BESS which is able to support at least one full hour of full export capacity of the plant.
6. **Commercial Operation Date:** Not later than the year 2025.
7. **Corporate Consumers:** Up to only three CC per plant. CC must be located in Peninsular Malaysia and must be an existing (or will be a new) customer of TNB.

Solar Power Producer – Eligibility Conditions

The following are some of the key conditions that persons who are interested in participating in the CGPP as an SPP will need to comply with, and the fulfilment of such conditions will need to be evidenced in the application by the SPP/consortium to participate in the programme:

(a) **Shareholding Structure of the SPP**

Malaysian citizens must ultimately have at least **51% of the equity interest in the SPP**. If the SPP is made up of a consortium (i.e. the consortium members will be shareholders of the SPP), then each consortium member must have at least 10%, and the lead member must have at least 30%, of the equity interest.

In addition, the SPP or a member of the consortium must have at least **three years relevant experience** in financing, developing, implementing and operating a solar power plant with a capacity of not less than 1MW.

Similar to the large scale solar programmes, the CGPP **prohibits a change in the names of the shareholders and shareholding structure of the SPP** within five years from the date of commercial operation of the solar power plant.

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(b) **Financial Strength**

The SPP or the consortium intending to form the SPP must have **assets** of at least RM10 million and each consortium member must have a **paid-up capital** of at least RM1 million.

(c) **Project Financing Arrangement**

The applicant must demonstrate **ability to finance the project** with sufficient equity and to secure the remaining portion of the project cost from its financiers. To that end, the applicant must be able to show in its application that it has a letter of support with term sheets from its financiers for the debt financing portion.

(d) **Land Use Right**

The SPP/consortium must have identified and have the **right to use** the site and route to the interconnection facility, for the proposed solar power plant.

(e) **VPPA**

The SPP/consortium must already have entered into a **VPPA or a commitment (such as in the form of a memorandum of undertaking)** with the CC(s) for the virtual supply of energy.

Unlike the usual form of power purchase agreements where there is physical delivery of energy, the agreement for the CGPP entails the virtual sale and delivery of energy and environmental attributes. As such, SPPs are advised to work with reputable advisors to ensure that the VPPA used for their respective projects are not only **appropriate for the project** but are also in **bankable form**.

(f) **NEDA**

It is imperative that the SPP be familiar with the **New Enhanced Dispatch Arrangement ("NEDA")**, the **Single Buyer market operation** and the **SMP tariff structure**, given that the SPP must participate in the NEDA as a condition to its participation in the CGPP and will be paid the SMP under the NEDA.

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Corporate Consumer – Eligibility Conditions

The following are some of the key conditions applicable to those who intend to participate as a CC under the programme:

- (i) the CC must be a company which is **currently operating in Peninsular Malaysia** or planning to do so within the next two years (with documentary evidence to prove that it has taken concrete steps towards that, such as having obtained approvals from the relevant authorities to do so);
- (ii) the CC is a company in the **manufacturing industry** or **service industry**, with a **good track record and credible financial position** for the last three years. It is not clear whether there are thresholds that need to be met to be considered as having a good track record or credible financial position;
- (iii) a CC planning to set up and operate in Peninsular Malaysia must have a projected revenue of not less than RM10 million, its site of business must have been identified and agreed to by the authorities, and the CC must already have applied to TNB for the supply of electricity and has indicated when such supply is required; and
- (iv) the CC's maximum demand must not be less than 1MW.

Conclusion

The launch of the CGPP will no doubt be greatly welcomed by the industry as a positive step towards driving the growth of the renewables space while allowing major corporates the opportunity to increase the use of renewable energy in their business operations and to meet their sustainability goals.

Project developers interested in participating in the CGPP should take heed of the requirements and start taking steps towards fulfilling them, given the aggressive time frame for the submission of applications. It is hoped that the compressed application period will not affect the quality of the applications and will still allow interested developers sufficient time to comply with the conditions and make meaningful submissions to the authorities.

Should you require further information on the Corporate Green Power Programme or any other matter pertaining to projects, energy and infrastructure, please feel free to reach out to our team at your convenience, through the **Christopher & Lee Ong** partners listed hereunder.

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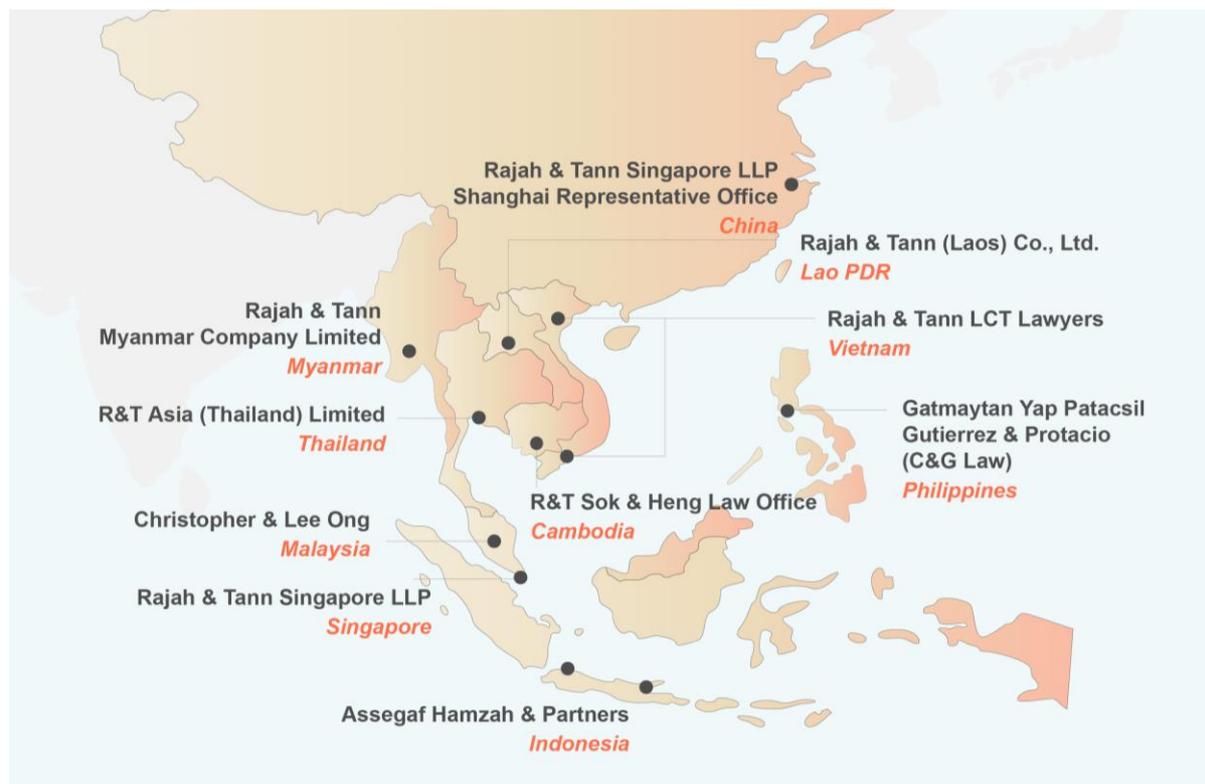
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