
Infrastructure, Energy & Resources

The Government of Malaysia Launches the National Energy Policy 2022 – 2040: What it Means for the Renewables Landscape

Introduction

The National Energy Policy 2022 - 2040 ("**NEP**"), which was launched by the Prime Minister of Malaysia on 19 September 2022, details the government's priorities for the energy sector (encompassing electrical and thermal energy) for the coming two decades. It represents a concerted effort by the government in defining its approach for the energy sector with an aim of driving the country towards benefiting from and embracing the energy transition megatrend. The NEP covers all energy sources including both renewable and non-renewable sources, and also covers the use of energy across all sectors of the economy. To ensure the effective implementation of the NEP, the government will establish a National Energy Council (chaired by the Prime Minister) which will be responsible for steering the agenda under the NEP.

We set out below a summary of some of the targets, action plans and initiatives under the NEP, relating mainly to the areas of **renewable and alternative energy, grid systems, mobility trends and greenhouse gas ("GHG") reporting**.

NEP Targets

The NEP prescribes certain targets (benchmarked against 2018) which are intended to usher the nation towards being a low carbon nation by 2040, some of which are as follows:

- to increase the total installed capacity of renewable energy from 7,597MW to 18,431MW and to increase the percentage of renewable energy in the total primary energy supply from 7.2% to 17% (to consist primarily of 4% solar, 4% bioenergy and 9% hydro);
- to reduce the percentage of coal in installed capacity from 31.4% to 18.6%;
- to increase the percentage of electric vehicle share in the country from less than 1% to 38%; and
- to increase the percentage of residential energy efficiency savings and industrial and commercial energy efficiency savings from less than 1% to 10% and 11%, respectively.

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NEP Action Plans and Initiatives

Highlighted below are some of the initiatives that the government has committed to undertake in respect of the following ten action plans (out of the thirty-one that are set out in the NEP):

1. Enhance and unlock potential of solar resources

- Maintain a **long-term pipeline of large-scale solar projects**, with indicative total package and lot sizes, optimised between large solar parks and smaller scale packages.
- Incentivise dual-use agri-voltaic solar farms.
- Explore **floating solar projects**.
- Increase **availability and competitiveness of private capital for solar investments**, with **optimisation of equity holding rules** and strengthening of the due diligence during bid evaluation process.
- Extend the Net Energy Metering ("**NEM**") programme.
- Increase capital access for distributed solar with rooftop solar aggregation, peer-to-peer (P2P) trading and **virtual power purchase agreements ("VPPA")**.

These initiatives reflect the speech by the Prime Minister earlier this month at the Fifth International Sustainable Energy Summit 2022, during which he announced that there would 1,200MW worth of quota allocation for solar, which will include projects under the NEM and new enhanced despatch arrangement (popularly known as NEDA) programmes, development of solar parks and supply of electricity to data centres. It was also mentioned in the Prime Minister's speech then that a quota of 600MW will be earmarked for the development of solar power plants for purposes of VPPA.

2. Enhance and unlock potential of hydroelectric resources

- Optimise utilisation of hydro resources and enhance efficiency of small-scale hydro, to position hydro to support future power needs and as a balance between power generation and **energy storage** contribution.

3. Enhance and unlock potential of bioenergy resources

- Optimise, explore and pursue the role of biofuels in transport and industry use-cases, such as in marine bunkering, aviation, biogas and biomethane.

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- Explore where biogas or biomass plants can support rural electrification.

4. Enhance platform for businesses to access renewable energy ("RE") in line with Environmental, Social and Governance ("ESG") standards

- Enhance mechanisms for industries to **offtake electricity from renewable energy sources** (including additional requirements by selected RE100) **through VPPA arrangements**.
- Market the ability for companies to offtake RE.

The government is acutely aware of the needs of the corporate sector, particularly multinational corporations ("**MNC**"), to accelerate the need to obtain most (if not all) of the power that they use from renewable energy sources. Certain MNCs have also made the availability of electricity from renewable energy sources a key factor when deciding on whether to invest in a country. Initiatives by the government on this front will be widely welcomed by all.

5. Explore potential of new energy sources

- Identify potential of **alternative energy supply sources** such as waste-to-energy, third generation bioenergy, solar thermal and ocean thermal energy conversion.
- Consider **geothermal and wind energy** potential in specific regions.

6. Unlock opportunities in the hydrogen economy

- Nominate a government entity to lead the development of Malaysia's **hydrogen economy roadmap** with an aim of optimising production pathways across green, blue and grey hydrogen.
- To position Sarawak as a hub for hydrogen exports.

7. Actions to power system advancements

- Invest in **grid infrastructure upgrades and energy storage** to support future mix with greater variable RE penetration and to roll out smart grid infrastructure.
- Facilitate entry of **VPPA** to increase offtake choice.
- Consider potential of market reforms such as **liberalisation of energy market and third party access schemes**.

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To that end, Tenaga Nasional Berhad (TNB), the national utility and grid system operator, has recently announced that it is investing RM21 billion in its Grid of the Future programme from 2022 to 2024 to enhance its transmission and distribution network's readiness and reliability.

8. Enhance and optimise grid system connectivity

- Establish **grid connectivity between Sabah and Sarawak** to enhance system stability, enable sharing of backup capacity and to unlock benefits of hydropower in Sarawak.
- Leverage **ASEAN power grid interconnectivity** to enhance system stability, optimise reserve margins and **explore electricity sales to neighbouring countries**.

9. Unlock opportunities from mobility trends

- Conduct strategic planning and support with early stage public-private funding to support **charging infrastructure build out** and other physical enablers.
- Establish regulations to support electric vehicle adoption.

Early steps have been taken by the government in this regard, as the Energy Commission of Malaysia's Guide on Electric Vehicle Charging System which was issued in July 2022 is expected to be enforced in the fourth quarter of 2022.

10. Enhance carbon footprint accounting, reporting and certification

- Enhance **accuracy and comprehensiveness of nationwide GHG accounting standards**, such as establishing country-specific emission factors.
- Adopt international standards and to encourage (towards an aim of mandating) **private sector carbon footprint accounting and reporting**.

Conclusion

The NEP underlines the government's commitment towards an energy transition that is currently taking place across the globe. It seeks not only to future proof Malaysia's energy sector but also to leverage it as a catalyst for investments into and within the country for the wellbeing of the people. More importantly, the NEP sets the tone for the development of the energy sector in the next two decades and is anticipated to have a major impact on the entire energy value chain, from production and generation up to distribution and usage by the end users.

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The relevant government agencies and regulators are also expected to issue a deluge of guidelines, policies and regulations in the near future, which will undoubtedly have an outsized effect on the evolution of the energy ecosystem. Industry players and stakeholders are encouraged to keep an eye out for any such developments and to align their strategies and approaches in order to fully benefit from what would likely be a seismic shift in the energy landscape.

Should you require further information on the National Energy Policy 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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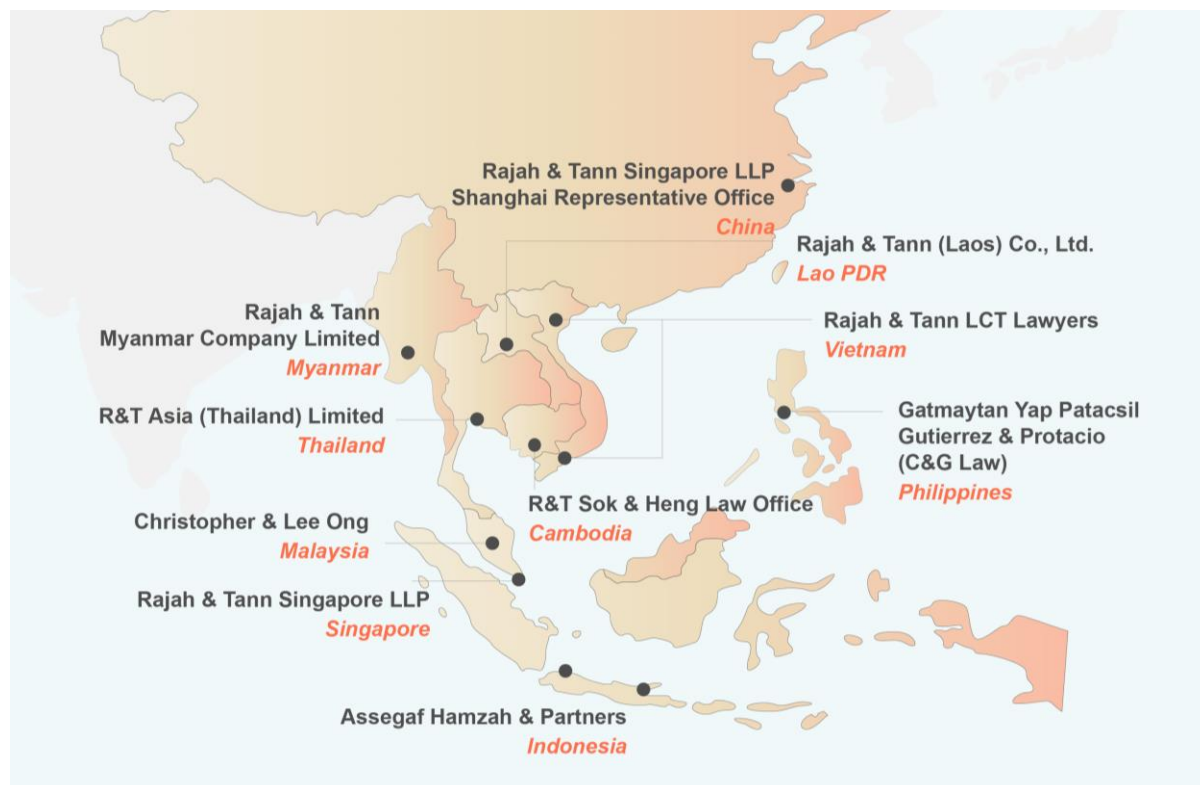
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