

## Client Alert

October 2018

### Updates on the Malaysian Solar Industry

The Ministry of Energy, Science, Technology, Environment and Climate Change (the Ministry) had recently announced several measures to promote the development of solar energy. This comes after the message to move away from the solar feed-in-tariff (FiT) programme which was meant to be the catalyst for solar development in Malaysia but fell short of meeting the renewable energy policy target.

#### Launch of a National Solar Photovoltaic Monitoring System (PVMS)

There will now be a single platform which allows for real-time data monitoring of key components of solar photovoltaic (PV) systems such as PV modules and inverters. The PVMS will also be able to provide information in relation to solar PV in Malaysia to the public. At least 120 grid-connected solar PV systems (up to 1MW in capacity) are being monitored by the PVMS and more systems will be added in the future.

#### Launch of Supply Agreement for Renewable Energy (SARE) programme

Conscious of the ever-evolving commercial realities of the solar industry and to promote domestic/residential solar usage, the Ministry announced the introduction of the SARE programme. The SARE programme is essentially a solar leasing arrangement in which asset owners/investors will finance and install the solar PV systems and lease it to homeowners or commercial customers. This new programme is expected to come into play in early 2019. Homeowners and commercial customers would benefit greatly from this programme due to the savings in electricity cost while ensuring a return on investment for the developers. This is a bold and a most welcomed step forward in opening up the market to investors and create a new pool of players known as 'prosumers' - where the public is able to be producers and consumers of electricity at the same time, in addition to filling in a gap to the current non-existent framework in relation to solar leasing in Malaysia.

#### Revision of the Net Energy Metering (NEM) Scheme

The NEM scheme is a billing mechanism that credits solar PV system consumers for the electricity they export to the grid. If a premise with PV installation produces more electricity than is required for its own consumption, the excess electricity will be supplied to the grid and the consumers are remunerated on a displaced cost basis. Currently, the displaced cost is calculated based on the consumers paying RM0.50 per kilowatt hour for electricity consumed but receiving only RM0.31 in return for their surplus energy.

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Following the low take-up rate of only 3% out of an announced 500MW quota, the Ministry has indicated that it will improve the NEM scheme by abolishing the prevailing displaced cost. Beginning 1 January 2019, the billing calculation would be based on one-on-one where the sale and purchase prices of electricity are the same. Coupled with the SARE programme, this is likely to encourage more participation in the NEM scheme.

### **Increase in the FiT Quota**

While it is unlikely for any FiT quota to be released for solar in view of the large scale solar projects (discussed next), the Ministry is still promoting other types of renewable energy through the FiT programme. Active steps have been taken by the Ministry in reviewing past performance and success rates of FiT quotas allocated, and this is evident when it revoked non-performing FiT projects in total of approximately 155MW and is looking to release at least 114MW of FiT quota for the next 15 years with 75MW allocated to small hydro, 30MW for biogas and 10MW for biomass.

### **Third Large Scale Solar Photovoltaic (LSS) Tender**

In an effort to boost solar development in Malaysia, the Energy Commission first introduced the LSS tender exercise in 2016 with a total aggregate capacity of 200MWac in Peninsular Malaysia and 50MWac in Sabah. The capacity per project was between 1MWac to 50MWac.

The second round of the LSS tender exercise was conducted in 2017 with an increased total aggregate capacity of 360MWac in Peninsular Malaysia and 100MWac in Sabah/Labuan. However, the maximum capacity per project was reduced to 30MWac.

The Ministry recently announced that the third round of the LSS tender is expected to take place in 2019 with the total aggregate capacity of 500MWac and the total project value estimated at RM2 billion.

In an effort to encourage better participation and to promote efficiency in the industry, with the Ministry recognising that land availability and state bureaucracy were constant issues faced by bidders in the LSS tenders, they are currently exploring ways and working together with the state governments to cut red tape in order to ensure that land rights are obtained quicker and without delay. Many of these are work in progress but once they take effect, we expect a swift change in the renewable energy climate in Malaysia in which domestic and international players, be it private consumers or large corporations, would benefit greatly from this change.

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