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KUALA LUMPUR (June 30): There could be a slowdown in the take-up rate of large-scale solar (LSS) projects in Malaysia due to high costs, an analyst said, noting some winners in the government's fourth round of LSS procurement programme (LSS4) — along with the Malaysia Photovoltaic Industry Association (MPIA) — are seeking an extension from the regulators.

Excluding foreign exchange movements, overall costs have increased by about 10%-15%, to factor in higher prices for solar equipment and other components like solar panels, cables, mounting systems and cables, said RHB Research analyst Sean Lim.

"The take-up rate of LSS projects in Malaysia may slow down, no thanks to the elevated cost pressures," he said in a note on Thursday (June 30).

Lim noted that only 56% or 909MW of the LSS1, LSS2 and LSS3 capacities are operational as of the fourth quarter last year (4Q21), which is only at a 2% progress rate as compared to 1Q21, while subsequent to the Energy Commission's (EC) inclusion of the 830.06MW from LSS4 capacity into its database, operational capacities for the whole of LSS1-LSS4 in 1Q22 stood at only 42% or 1030.4MW.

"One item in the wishlists of the shortlisted bidders is to extend the power purchase agreement duration from 21 years to 25 years, to cover the additional cost incurred. Apart from that, companies are hoping the government can lower the Sales and Services Tax and import tax of solar parts," he said.

Lim said certain companies have yet to achieve financial close as well, and could be exposed to higher financing costs in an environment of rising interest rates.

In the event of not commercialising the plant as per its commercial operation date, the asset owners may face liquidated ascertained damages charges, Lim said, adding that the penalty for not meeting the deadline for LSS4 is five times higher than the previous round of LSS.

Lim also noted that the EC has temporarily suspended licence applications for solar photovoltaic (PV) systems' installation for own-use, solar PV private licence for capacity above 5MW, and public licence application for self-consumption and solar-leasing category.

"While the EC has not given an official reason behind the suspension of the licence applications, there is an implication that the progress of works could be affected amidst uncertainties — especially when some of these commercial operation dates are scheduled for the end of this year," he said.

"With all the ongoing challenges, we do not expect the LSS5 tender to be out so soon," said the analyst, who also downgraded the power sector to "neutral" from "overweight", premised on the rising regulatory risk to uphold the Imbalance Cost Pass-Through framework, which could eventually challenge the incentive-based regulation scheme.

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