AUTHOR: Gurmeet Kaur SECTION: STAR BIZWEEK PAGE: 3,4 PRINTED SIZE: 746.00cm² REGION: KL
MARKET: Malaysia PHOTO: Full Color ASR: MYR 37,688.00 ITEM ID: MY0058343711

06 APR, 2024

Large-scale solar scene abuzz with activity again

The Star, Malaysia

ENERGY

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Allowing foreign participation among the highlights

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FINALLY the bidding process for the fifth cycle of the country's large-scale solar (LSS5) programme has kicked off after a three-year hiatus.

A total of two gigawatts (GW) in capacity is up for grabs – more than double the capacity offered under the previous round of the LSS competitive-bidding process.

Potential jobs in the engineering, procurement, construction and commissioning (EPCC) space are massive, up to the tune of RM7.2bil, according to Maybank Investment Bank Research (Maybank IB Research).

Malaysia aims to hit 70% renewable energy (RE) installed capacity and carbon neutrality by 2050, which will require at least 20GW of new RE from now until 2050 or some one to two gigawatts a year.

Coming back to LSS5, it is broken down into four packages **(see table)**.

Among the highlights is once again allowing foreign parties in, albeit for the bigger packages and only up to 49% of equity.

Foreign participation was allowed in the first three LSS programmes, but was absent in LSS4 as the government took a more "local" approach, allowing only wholly Malaysian entities or locally listed companies to bid.

At the same time, LSS5 stipulates minimum bumiputra and local-equity requirements, evidencing the government's intention to increase local participation in the RE sector.

Summary of LSS5 packages

Packages	Capacity allocation (MW)	Min. bid (MW)	Max. bid (MW)	Installation type	Shareholding condition
1	250	1	10	Rooftop/ground mounted	Min. 51% bumiputra
2	250	10	30	Rooftop/ground mounted	Min. 51% bumiputra
3	1000	30	500	Rooftop/ground mounted	Min. 51% domestic
4	500	10	500	Floating solar	Min. 51% domestic

Source: MIDF, Energy Commission

The Star graphics

One other salient change it is understood is the shift away from the reverse-bidding model in LSS5. Under the model, there is a reference point where the bidding starts with the highest possible price and decreases gradually. The lowest bid generally wins.

This reference tariff is absent in LSS5, which means there is no ceiling price for the tariff, one industry player says.

However, observers say this could be due to the size of the plants, from one megawatt (MW) to 500MW, thus making their financials divergent.

The industry has also matured over the years and has come to understand that "competing at the best prices" is the right way to go.

Nirinder Singh Johl, chief executive officer of Asia Carbonx Change Plt, says this could also be indicative that the environmental attributes may now belong to the LLS players, prompting them to get the best prices below market rate.

"Granting RE asset owners ownership of environmental attributes for LSS5 projects would be a significant milestone in democratisation of the grid and move away from the traditional conservative utility-driven market to one based on market rules.

"This shift allows market dynamics to determine the price of environmental attributes, and potentially drive down bidding prices through innovative approaches," adds Nirinder.

Recall that in LSS4, many new players from various industries joined the fray to secure an allocation and had submitted low bids.

However, the unforeseen Covid-19 outbreak followed, and solar panel prices shot up due to supply-chain issues.

Compounding this was the weakening of the ringgit against the US dollar. Due to this, smaller LSS4 players incurred losses. The government subsequently extended the LLS4 power purchase agreements (PPAs) by four years to 25 years to ease the challenge to the players.

Coming back to LSS5, Rakuten Trade head of equity sales Vincent Lau expects competition among multiple players not unlike the previous round as companies look to expand their order books.

However, with solar panel prices having come down sharply, he says this gives room for bidders to manoeuvre capital expenditure (capex) even if bids come in as competitive as LSS4.

Moreover, interest rates are stable and it is only a matter of time when they will trend down.

Depending on the risk appetite of bidders, Lau says the internal rate of return (IRR) could come in at the high single-digit range, which is decent.

For the larger packages, he says Tenaga Nasional Bhd is likely a beneficiary and could see cheaper cost of funds with the strong balance-sheet backing of foreign parties.

The bids for LSS4 ranged from 17.68 sen to 24.81 sen per kilowatt hour, while returns were about 8%, according to a recent report. Speaking to *StarBizWeek*, Solarvest Holdings Bhd group chief executive officer Davis Chong Chun Shiong says the packages category allows for the big and small companies to focus on their key areas and strengths, respectively.

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Latest round to encourage more strategic bidding, realistic pricing

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Even so, he expects LSS5 to be keenly contested and this is good for the growth of the RE industry.

"The issue with LSS4's reverse bidding model was the unrealistically low bids.

"So, LSS5 should encourage more strategic bidding with realistic pricing instead of a price war, taking into account capital, profit margin and not forgetting the price of materials, which are low for now, but might shoot up in the future," he adds.

Chong expects LSS5 to be more profitable, moving towards a more market-driven approach, which will in turn lead to cheaper clean energy.

"This will result in a higher IRR and more feasible business profit to facilitate healthier competition for all bidders," he says.

Chong says Solarvest is in a strong position to compete for larger-scale 500MW projects and the floating-solar category.

"We were one of the fastest to complete most of the LSS4 solar farms, and in 2019 completed the country's first and largest floating solar farm in Dengkil, Selangor," he says.

Meanwhile, Samaiden Group Bhd managing director Chow Pui Hee sees more intense competition for Packages 3 and 4 of LSS5 as they are open to international partners.

"Under LSS3, four out of the five winning bids were awarded to international players at a very competitive rate. So, for Package 3 LSS5, we foresee a tough fight as the range in this package is from 30MW to 500MW despite having a 1000MW allocation."

But the downside of awarding a handful of winners is that if a project fails, a chunk of the target will not be met.

On the other hand, she notes that, in the past, the smaller categories have yielded higher power purchase agreement (PPA) rates due to less intense competition.

Sharing some salient changes in the latest LSS programme, Chow says the rise in capacity bid limit to 500MW (for Packages 3 and 4) is five times the previous 100MW limit for LSS3 and 10 times the 50MW limit for LSS 4. According to her, floating solar could entail huge capex of some RM1.5bil-RM2bil.

"This is fairly demanding and the big foreign boys have the technology, balance sheet and fundraising experience. Priority is also given to local players for participation as they have demonstrated they can complete projects on time in past LSS schemes.

"But the right return on investment is important for the smooth landing of the projects," Chow tells *StarBizWeek*.

The deadline for bid submission is July 25, 2024.

MIDF Research in a report says the outcome of the bidding could be announced by year-end, which would give successful bidders sufficient time for financial close and plant construction in 2025, before the commercial operation date deadline in 2026 as set by the Energy Commission.

A total of 68 LSS plants with capacities 1,872MW have been successfully commissioned since the project's introduction in 2016.