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LSS projects under cloudy skies again

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LARGE scale solar (LSS) projects are a key aspect of Malaysia's push towards renewable energy (RE).

The country has been carrying out these concession-based projects since 2016, which has resulted in a thriving ecosystem of RE players.

While the LSS programme has helped drive solar adoption, it has not been without its share of challenges.

Recall that several LSS3 and LSS4 projects, for example, faced delays and cost overruns due to disruptions in the global supply chain and surging panel prices during the Covid-19 period.

These issues exposed the vulnerability of project margins to external shocks, especially fluctuations in equipment costs.

As a result, many of these LSS projects became unviable largely because the concession owners had placed low tariffs in their bids to secure the contracts.

Now, a similar challenge could be emerging under LSS5 and LSS5+, as rising solar panel prices raise fresh concerns.

This comes amid China's ongoing push to curb excessive domestic competition, known as its "anti-involution" policy.

While the policy aims to foster more rational pricing within China, it is also likely to increase costs for countries dependent on Chinese exports.

Malaysia, with its growing pipeline of solar projects, may soon feel the impact.

In a report on Thursday, UOB Kay Hian (UOBKH) Research noted that China's policy could drive solar module prices up by 12% to US$0.10 per watt by year-end.

For instance, polysilicon – a key raw material used in the production of solar photovoltaic panels – has risen by about 25% over the past month.

Meanwhile, wafer prices have also gone up sharply from the previous month.

While Malaysia can explore diversifying its supply sources, practical constraints mean China will likely remain a major supplier for now.

Additionally, the expanded scope of the sales and service tax will likely add to construction costs.

UOBKH Research estimates that these factors could increase the overall cost of an LSS plant by as much as 20%, potentially eroding project internal rates of return (IRRs) by one to 1.5 percentage points.

Engineering, procurement, construction, and commissioning contractors may also face margin pressure as higher equipment costs squeeze profitability under already tight IRR assumptions.

Solar modules typically make up 20% to 25% of a utility-scale solar project's total cost.

Considering the reportedly low tariff submitted for LSS5 bids, project viability could be at risk as construction is slated to begin next year.

Will LSS5 award winners need to seek regulatory intervention?

In the case of LSS4, project tenures were extended by four years to help developers manage ballooning costs and ensure returns on investment.

This situation may prompt policymakers to revisit how future LSS rounds are structured – possibly by introducing greater pricing flexibility, allowing longer development timelines, or incorporating mechanisms to account for cost escalation.

Such features have been adopted in some countries without compromising on competitive pricing goals.