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New incentives to spur renewable energy generation

In addition to the revised NEM programme announced in October, the government announced several incentives to spur solar leasing and the trading of Renewable Energy Certificates (REC) as well as to attract Malaysians to invest in renewable energy.

"Behind-the-meters solar photovoltaic (PV) business models are emerging, such as solar leasing, power purchase agreements (PPA) and a hybrid of both. All these business models can be via direct deals between a solar investor and a client or by entering into a tripartite agreement with Tenaga Nasional Bhd under the Supply Agreement for Renewable Energy (SARE) programme," says Dr Wei-nee Chen, acting CEO of Sustainable Energy Development Authority Malaysia (SEDA).

Through solar leasing, consumers can pay for the set up and use of solar panels under a monthly plan. If they choose to work with TNB, the utility will collect the monthly payments from them and remit these to the solar investor in exchange for a fee. The solar investor refers to a company that will install and own the solar panels.

"Consumers would have to look for their own solar lessor or investor. Going with TNB reduces the risk of consumers not paying because the utility can just cut off the main electricity supply if they owe money," says Chen.

According to her, solar leasing makes sense for companies that want to manage their cash flow over a period of time before owning a system. The solar PPA, which is based on payments for the electricity generated, is ideal for companies that do not want to own the assets.

Solarvest Energy Sdn Bhd currently has a solar leasing option called the PowerLease Programme for commercial and industrial consumers. It will negotiate a monthly payment plan for a specified period of time.

"Under the leasing agreement, the consumer would pay the lessor for the electricity produced by the solar PV system at 5% to 10% lower than the TNB tariff. The leasing period is 20 to 25 years. At the end of the period, the system will be handed over to the consumer," says Bong.

According to Ko Chuan Zhen, co-founder and executive director of solar installation company Plus Solar Systems Sdn Bhd, companies that want to benefit from tax and cost savings can just purchase the solar panels outright and obtain financing from banks. "They will have direct ownership of the solar panels. Even though they are taking a loan to own the asset, they qualify for a tax incentive from Malaysian Investment Development Authority for investing in green technology, which only applies to companies that own the asset," he says.

Companies that prefer not to own the solar panels or benefit from corporate tax savings could go for the PPA model, he adds. "The concept is that the asset will be owned by the solar company, which rents their roof. We will sign a private PPA with them for a number of years, depending on how we negotiate the contract."

Solar panel installation companies will have to carefully negotiate and select their clients, however, as it could be a long-term contract that spans decades. That is why it currently makes more sense for them to serve industrial or commercial clients, says Ko. "For residential segments, I think the payback from investments is not really there yet as the collection of payments will be more uncertain compared with companies."

Bong agrees. The solar leasing concept is still new in the country, so companies like his will have to be careful in selecting clients. But he believes that eventually, solar leasing options will be available to domestic consumers too.

By next month, SEDA will have a directory of solar lessors or investors.

Trading environmental attributes

The trading of RECs is currently targeted at large companies. These are issued when 1MWh of electricity is generated by a renewable source of energy and delivered to the electricity grid.

In the REC market, which is available in the US and Europe, solar PV owners can sell their environmental attributes (EA) — the electricity generated from renewable energy — to a buyer, which are usually corporates that wish to power their premises with clean energy.

Similar trades can be done locally soon. Chen says this would particularly appeal to companies that are part of the global RE100 initiative, where 100 multinational businesses have committed to source 100% of their global electricity consumption from renewable sources by a specified year. The IKEA group and AEON are among these 100 companies.

"This will bring an additional channel of revenue for the PV owners. The corporate buyers of RECs will be the companies that ascribe to the RE100 sustainability framework," says Chen.

The way one can sell the EAs is by being verified by a third party, such as SEDA, which was appointed by US-based technology service provider for sustainable energy APX Inc as the authorised verifier of the Tradable Instrument for Global Renewables (TIGR) Registry. After verification, companies can put their EAs up for trading in the REC registry platforms. Currently, there are two global platforms for the REC market — the I-REC and the TIGR registries.

It may be more difficult for domestic or individual REC providers to sell their EAs due to their relatively smaller size, but there could exist traders in the market who can package their RECs together. "Alternatively, a trader can aggregate the RECs generated by individuals to be sold to corporates," says Chen.

The prices in the market will be determined by the supply and demand, type of renewable energy and age of the RECs. For example, those that are more than two years old may not be as valuable, according to Chen. The distance between the buyer and the REC provider also matters because some buyers require the provider to be in the same grid jurisdiction.

"Many companies are aware of the need for compliance with environmental, social and governance principles, but they are not aware that they can tap the REC market for that purpose. Then, the supply chain needs to be there as well, which are the small and medium enterprises," says Chen.

"It is still a new market in Malaysia. Nevertheless, with more corporates facing international obligations to be environmentally conscious, RECs will be an affordable way for them to achieve their climate goals."