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ENERGY

Power trip for solar players

A mere 42% of the first three versions of large scale solar projects have met operational deadlines. The situation is likely more dire with LSS4.

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THE idea of large-scale solar (LSS) power plants is a way for Malaysia, blessed with sufficient sunlight, to quickly reach its renewable energy (RE) production targets.

Recall that the country has a 2025 target to have 31% of total power capacity to come from RE, from about 17% now. A significant portion is meant to come from solar power generation.

Applicants interested in running LSS projects were invited to bid in four iterations of the programme since the first round of bidding in March 2016.

In each version, the size of the power plants grew. However, LSS progress has remained slow.

One would have expected that the first three LSS programmes should have all been up and running today.

However, according to information from the Energy Commission, only 1030.42 megawatt (MW) out of the 2457.27 total capacity awarded under the first three LSS cycles are operational as of the first quarter of 2022.

That means that a mere 42% of winning bidders for LSS1 to LSS3 have managed to get their plants up and running within the stipulated deadline. So what gives?

The situation is even more dire with LSS4. What transpired in LSS4 was a rush by companies to win the right to build LSS projects. As a result, many had submitted rather low tariff bids in order to ensure that they would come out as a winning bidder.

Notably, LSS4 was commissioned during the Covid-19 period with an underlying purpose to stimulate activity in the domestic market. The low borrowing rates in the recent past was also an advantage for winners of LSS4 bids.

However, many could not capture this opportunity because they could not achieve their financial close fast enough, says one industry player.

"When the winners of LSS4 submitted bids in 2020, it was at a certain competitive tariff and based on their competitiveness, they were then selected.

"New things have changed and they are finding that they cannot get the same kind of pricing of things like raw materials such as solar panels, which is affecting their financing model. And when you run through the numbers, the internal rate of return (IRR) is very low,' says an analyst.

LSS4 had attracted a total of 136 bids submitted in 2020. In mid-March 2021, the Energy Commission shortlisted 30 bidders – 10 out of which are subsidiaries of public-listed companies from various industries.

Needless to say, some investors chased up the stocks of companies that were selected for LSS4.

Winning bidders had submitted plans that entailed them seeking power tariffs ranging from 17.68 sen to 24.81 sen per kilowatt hour (kWh). This is the price at which the winners intend to sell their solar-generated electricity into the country's electricity grid, while still making the venture a profitable one. The developers have until the end of 2023 to get their plants connected to the grid.

Just as a reference, under LSS1, the lowest bid was 39 sen per kWh. The tariffs in the later versions of LSS bids were lowered as over that period of time, solar panel costs had come down plus Malaysian players should have become more acquainted with the know-how of building such solar farms. And with larger farms, economies of scale should be kicking in, at least theoretically.

However, a big challenge is facing these companies.

Over the past two years, solar panel prices (which account for more than half of project costs minus land cost) have risen by more than 60%. Although prices have stabilised, analysts note that they remain elevated as compared to the level when players had submitted their bids in 2020.

Even big players such as Tenaga Nasional Bhd (TNB) are feeling the heat.

As TNB's chief new energy officer Mohd Zarihi Mohd Hashim describes it: "We are in a challenging situation due to the rise in raw material costs driven by higher global demand for solar modules, prolonged lockdowns in China, increases in fuel cost and the ongoing Ukraine-Russia war."

He points out that besides the solar module price being much higher than expected, logistics costs have also risen multifold as compared with the pre-pandemic levels. Added to that, financing rates are rising.

"These factors pose a challenge to the project but we are pursuing several mitigation steps to ensure their viability. We are committed to working towards our initial commitments," Mohd Zarihi tells *StarBizWeek*. He explains that TNB is doing this through discussions with suppliers, regulators and the government.

Without elaborating more, he says discussions with the regulators includes TNB proposing several measures to mitigate the current challenges.

TNB has secured three LSS bids from the first, second and fourth bidding cycles. The first two are already up and running, while the new 50MW plant under LSS4 is being developed.

Another good illustration of the state of affairs with the building of solar plants is the case of Cypark Resources Bhd.

Its shares were beaten down recently on concerns over its debt and cash flow position and its ability to execute the power projects it has in hand. Cypark was one of the five companies that won LSS3 contracts, while under LSS2, it has two solar plant projects with a size of 30MW each. An analyst with a local brokerage expects these to be operational or achieve commercial operation date (COD) by financial year 2022.

Regulator gives financial close extension for LSS4

Notably, for certain LSS4 projects with a financial close deadline of December 2021, and following requests made by some of the winning bidders, the Energy Commission has decided to extend the date to March 2022.

This, according to Davis Chong, group CEO of Solarvest Holdings Bhd, has given players some breathing space to sort out their problems.

"Many industry players including Solarvest have brought up concerns to the Energy Commission. Since then, the Energy Commission has accommodated some of our requests," he says.

Given the current economic climate, he adds that players are also asking for some leeway in terms of extension for the COD of projects.

"So far, there haven't been any updates with regards to this. As such, industry players will need to work according to the current deadline until further notice," said Chong, who is also the president of the Malaysian Photovoltaic Industry Association.

Solarvest was awarded three plants under LSS4 with an accumulative capacity of 50MW, making it one of the larger players in the country.

At the time of writing, the Energy Commission has yet to respond to queries from *StarBizWeek*.

It is also not known whether further extensions for financial close will be given for companies which have yet to achieve this.

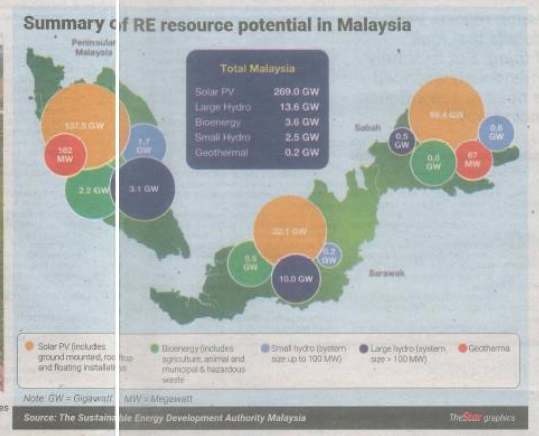
Extending the financial close however doesn't necessarily solve the issue. Such extensions can in fact lead to another problem – cutting down the construction time for the plant. Industry experts say putting up a solar plant for the typical sizes of LSS4 will take between 12 to 18 months.

"If you have a strong balance sheet, then you can start construction before financial close. But for most solar plant developers, they would need to have the financial close for the contractor to begin work," says one industry player.

He reckons some players under the LSS programmes may take a hit as the IRR could now be very low considering the rise in costs.

He explains that while solar implementation is not complicated, there are other factors that can impact the timeline such approvals to get the development order, or permit for land conversion.

Surging cost: A worker mounts solar panels on the roof of a farmstead barn in Landshut, Germany. Solar panel prices have risen by more than 60% in the last two years.



If LSS4 winners fail to complete their projects and start producing electricity to the grid as scheduled, a liquidated and ascertained damages (LAD) will be imposed on them.

"We believe most of the project owners will try to meet the deadline to avoid getting the LAD as this round's penalty is five times the amount compared to previous rounds," says Solarvest's Chong.

He adds that players understand that the LAD clause is in place to ensure that bid winners execute their respective project timelines as per the LSS4 award, but remain hopeful of a win-win solution between the regulator and project developers to ensure healthy growth in the RE industry.

However it should be noted though that making any changes to the original winning bid is not a simple decision. That is because any changes means that the entire terms of the bids are being changed and this in turn would not only be unfair to parties which did not win their bids but also raise the prospect of them raising complaints that the 'goal post' has been changed.

"There are legal ramifications to such changes. The sanctity of the concessions is at stake," quips one industry expert.

That isn't stopping winning bidders from appealing to the regulator.

For example, Advancecon Holdings Bhd, a construction company which was shortlisted for LSS4, hopes the authorities could extend the period of the power purchase agreement from 21 years to 25 years to enable players to recuperate from the higher cost burden.

It also hopes the authorities can consider lowering the sales and services tax, and import taxes of solar components and consider the reintroduction of the renewable energy certificate, which will enable players to generate additional revenue by selling excess energy generated to other businesses.

With solar stakeholders impacted by pandemic-related supply chain disruptions and a severe labour shortage, it also hopes the government can consider to automatically extend the deadline by granting a six months extension.

Uzma Bhd's chief executive officer Datuk Kamarul Redzuan Muhamed says "the unprecedented situation of the volatility of the solar panel price requires an unprecedented solution".

He adds that while on its part, the oil and gas company has managed to reduce cost via value engineering exercise, support from the industry, financial institutions and government intervention is desired to accelerate the project and improve the situation.

"In view of this, facilitation and initiatives among others such as the Green Investment Tax Allowance and Green Technology Financing Scheme should continue with a more simplified requirement and approval process. Longer PPA tenure will also improve the economic model for LSS4 developers," he adds.

Should the entire LSS4 be relooked?

It is noteworthy that even with the higher tariffs and earlier deadlines of solar projects awarded under LSS1 to LSS3, many of their projects could not take off the ground. Prices of solar panels were cheaper then.

The question now is, with the numerous challenges facing LSS4 projects, can any of them even make it through? Secondly, how will the Energy Commission respond with regard to the numerous requests coming in for re-negotiations of the terms?

An industry player puts it succinctly. "If most players wish to re-negotiate the terms of LSS4 with the Energy Commission, doesn't it only make sense to revoke the entire awards under LSS4 and re-open it back? This would seem as the most fair way in order for all players to recalculate their business case and submit based on what is do-able," he poses.

He may be right. The danger of changing the terms of LSS4 awards sets a dangerous precedent, and one that could have legal implications. He explains that the programme is designed such that one cannot sell its quota to a third-party as the winner had won the contract because it was seen as qualified and able to execute the project via a competitive bidding process.

A lesson is also to be learnt from the LSS4 bids. That scenario changes do take place in the business world and an experienced player would have put in the necessary contingencies to cover for unforeseen circumstances, points out the industry player.

Industry remains optimistic

RISING costs are affecting the implementation of solar projects, especially under the fourth cycle of large-scale solar (LSS4) scheme with their very competitive tariff bids.

Several public-listed companies share their progress and how they are mitigating the unexpected cost increase.

Solarvest Holdings Bhd, which was awarded three plants in LSS4 with an accumulative capacity of 50 megawatt (MW), says it has obtained financial close for its two plants that are due to achieve commercial operation dates in 2022.

"The construction progress is good with roughly one-third of the work completed.

"For the third project that is due in 2023, we have begun engineering and designing work, and are awaiting approval from the authorities for site possession," its group chief executive officer Davis Chong says.

The company is primarily in the business of providing engineering, procurement, construction, commissioning (EPCC) services for solar projects.

It has eight EPCC contracts secured under LSS4. For the four contracts which are due in 2022, good progress is being made and on track to meet the deadlines set, the company adds.

Uzma Bhd group chief executive officer Kamarul Redzuan Muhamed says while raw material costs have affected project costing, it does not render the oil and gas company's LSS4 project non-viable.

On the other hand, the situation has necessitated it to be more creative in project delivery via utilisation of most recent technology and value engineering exercises.

Uzma, via Uzma Environergy Sdn Bhd, won the bid for a 50MW solar plant under the fourth LSS cycle.

He adds that the diversification beyond oil and gas was part of the group's transformation programme to broaden the source of income.

"We have accepted that the return on investment is in direct correlation with risk.

"The oil and gas business inherently has high risk thus higher returns compared to other segments we are venturing into, including the solar business" Kamarul says.

For Tan Chong Motor Holdings Bhd, its foray into solar is in line with the group's sustainability efforts to reduce carbon footprints by harnessing renewable and clean solar energy.

The automotive group was awarded to develop and operate a 20MW of large scale solar photovoltaic plant on the surface of a lake in Serendah, Selangor – its first large scale solar project.

Its group CEO Daniel Ho shares that the group is currently in the process of finalising certain details to meet the project target deadlines, which is to be on stream by late 2023.

Other successful bidders such as Ranhill Utilities Bhd and MK Land Holdings Bhd are also optimistic of getting their plants running by the end 2023.

MK Land's LSS 4 project is a 10.95MW plant located in Kerian, Perak. The property developer says it has achieved the financial close for the project and commenced works on site.

But as a precautionary step, via the Malaysia Photovoltaic Industry Association, and together with a few other LSS 4 winners, it is seeking an extension from the regulator.

"Due to the current uncertainty especially in the global supply market for solar materials and equipment, we hope that the authorities would agree to allow for some flexibility in the duration to complete the LSS 4 projects accordingly.

"This will encourage more corporates to support the government's initiative towards generating more renewable energy going forward," MK Land adds.

Moving forward, Samaiden Group Bhd Group managing director Chow Pui Hee expects most of the LSS4 successful project developers to finalise their award of EPCC contracts in the coming months as this is one of the main conditions for them to achieve financial close.

She says that so far, the company has not seen any cancellation of EPCC contracts.

However, some projects are facing delay of award or execution of EPCC contracts because the companies have not achieved financial close, she adds.

According to her, based on panel manufacturers' expectations, (panel) prices will not soften in the second half of 2022 due to strong demand from countries like China.

However, she believes that renewable energy projects are "still attractive and will be in high demand" with countries pushing their green agendas.

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