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Be transparent with solar licensing

Raison D'etre - Risen Jayaseelan

IN the Malaysian energy sector, there is growing interest in building solar farms now that the feed-in-tariffs (FIT) have become clear.

That's essentially the special rates that the national utility will pay anyone who can produce and sell' electricity from a solar source back into the country's power grid.

According to some entrepreneurs venturing into this industry, the tariffs look attractive enough for them to make their business case. That's a good start for this clean form of energy to take off.

Incidentally Malaysia is one of the largest producers of solar panels but the production of electricity from solar is at negligible levels today. Hopefully, with the FIT in place now, things will change.

Also looking promising are the detailed steps applicants need to make in order to apply for a solar license (which in turn will entitle them to the special tariffs).

According to documents provided by officials from the Ministry of Energy, Green Technology & Water, applicants need to display their plant's design details and show proof of other technical capabilities. One also needs to display evidence of financial strength and produce clear milestones for the project.

The ministry officials also say that if the accepted milestones are not met, the governing body, the soon-to-be-formed Sustainable Energy Development Authority (Seda), will withdraw the licence issued.

Seda will certainly play a crucial role in ensuring that there is no favouritism in the issuance of solar licenses.

What we don't want to see are parties who are issued the solar licences going about trying to flip them to others for a higher price.

Apparently, this has happened in one neighbouring country, and that has marred the development of the whole solar power sector there.

In Malaysia though, the licences to be issued by Seda will be non-transferable, at least according to documents on the matter. While this is a good safeguard, it appears that if a company owns a licence to run a solar farm and receive the special tariffs, that company can be sold to other parties.

The rationale for this is that sometimes, existing shareholders who fund the project may have a need to cash out of the project. Typically these could be private equity investors, who had been willing to fund the greenfield project of the solar farm. Subsequently, when the farm is up and running and producing a cash flow, other investors with different risk appetites could be interested in buying into the company.

In such instances, it does seem that nothing is wrong if the original shareholders of the solar farm project sell their shares to other parties.

However, the situation is different if the original shareholders of the company didn't do much with the license they were issued, and after some time, sought to sell their company for a higher price. In such instances, Seda should revoke the licence and issue it to new parties willing to invest in this area of renewable energy.

Malaysia has a chance to get it right from day one by ensuring a transparent and fair process in the issuance of licences to parties keen on building solar farms. The country expects nothing less from Seda.

- *Business news editor Risen Jayaseelan wonders though if clouds in Malaysian skies, the haze and increasing flooding are going to hinder the efficiency of solar farms here.*