

**Keynote Address By**

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DEPUTY SECRETARY GENERAL (ENERGY),  
MINISTRY OF ENERGY, GREEN TECHNOLOGY AND WATER  
At The**

**Stakeholders Engagement Session on Degression Rates for Solar  
Photovoltaics (PV)**

**Tuesday, 26 February 2013**

**Residence Hotel @ Uniten, Bangi**

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**Yang Berhormat Tan Sri Dr Fong Chan Onn**  
Chairman  
SEDA Malaysia

**Yang Berusaha Puan Badriyah Abd Malek,**  
Chief Executive Officer  
SEDA Malaysia

**Ir Ali Askar**  
Chief Operating Officer  
SEDA Malaysia

Datuk-Datuk,

Distinguished Guests, Ladies and Gentlemen.

A very good afternoon, Salam 1Malaysia.

1. On behalf of Ministry of Energy, Green Technology and Water, I would like to welcome all of you to the Stakeholders Engagement Session on Degression Rates for Solar PV which is jointly organized by

the Ministry of Energy, Green Technology and Water (KeTTHA) and the Sustainable Energy Development Authority (or SEDA Malaysia). The huge turnout to this session today is testimony to the strong interest of the stakeholders on the subject.

2. As most of you are aware, SEDA Malaysia made the first announcement on the proposed revised degression rates for solar PV during the International Sustainable Energy Summit on 7 November 2012. This was followed by a dialogue session that was held on 28 November 2012 to obtain feedback from industry players.

3. Since the implementation of the Feed-in Tariff mechanism on 1<sup>st</sup> December 2011, SEDA Malaysia has received a total of 1,569 applications with a total capacity of 655 MW as of 31<sup>st</sup> January 2013. Solar PV received overwhelming response with 1,505 applications or 96% of the total applications received. Of these applications, 993 with an equivalent capacity of 437 MW have been approved. The share of solar PV out of the total approved capacity is 169 MW, or 38.7% of the total capacity of the approved applications.

4. The strong interest as evident from the total applications that has been received and the rapid rate at which the PV capacities have been “snatched up” is a strong indication that the Feed-in Tariff (FiT) rate for solar PV is very “attractive.” It is no secret that the original FiT rate for

solar PV was based on prevailing market conditions and rates in 2009. As we all know the solar PV industry has undergone rapid changes since 2009 with global installed capacity reaching 100 Gigawatt (GW) by end of 2012. With the current consolidation in the solar PV industry, the global prices of PV modules have dropped drastically in recent years. Module price which used to constitute nearly 70% of the PV system price 7 years ago has dropped to only 30%. Research conducted by Photon International showed that monocrystalline modules have declined by 29.6% in the past 12 months. The price for the module has dropped from €0.74 /W (RM 3.04) in May 2012 to €0.69 euro cents/W (RM2.83) in November 2012. Prices for multicrystalline modules on the other hand had declined by 35.8% during the same period. Price for the multicrystalline module dropped from € 0.71 /W (RM 2.91) in May 2012 to only € 0.61 /W (RM 2.50) in November 2012. Finally, prices for amorphous thin film modules shows significant reduction of 56 % with prices dropping from € 0.57 /W (RM 2.34) in May 2012 to only € 0.36 /W (RM 1.48) in November 2012. The overall cost for solar PV technology in Malaysia is expected to follow the global trend with price declines in the range of 5 to 10% annually over the next 2 to 3 years.

Ladies and Gentlemen,

5. Section 18(1) of the Renewable Energy Act 2011 requires SEDA Malaysia to review the rates at least once in every three years for any of the renewable energy resources. Section 18(2)(c) under the same act further stipulates that in the course of the review, SEDA Malaysia shall take into account the current costs to build, operate and maintain the RE system installation in determining the rates. It is a well known fact that the FiT rates for solar PV in Malaysia is relatively high compared to other countries in the world. For instance, the FiT rate for Europe is only € 0.084/kWh (RM 0.35), Australia is AU\$ 0.08/kWh (RM 0.25), solar PV adder tariff in Thailand is Thai Baht 6.50/kWh (RM 0.68) and Italy is € 0.135/kWh (RM 0.56).

6. The goal of feed-in tariff is to offer cost-based compensation to renewable energy producers, provide the price certainty and long-term contracts that help finance renewable energy investments. Revising the degression rate is another measure towards improving the sustainability of the FiT mechanism. We need to be prudent and apply lessons learned from other countries in administering the FiT mechanism. We want the Malaysian Feed-in Tariff to be a sustainable business model that will facilitate the growth of Renewable Energy in this country.

Ladies and Gentlemen,

7. The revision of the degression rate is not peculiar to Malaysia but is a part of the FiT mechanism being implemented elsewhere. Other countries and regions with FiT programme are also revising their FiT degression rates, such as the State of Oregon in United States that adjusts their FiT rate twice a year, while in the United Kingdom the FiT rate is revised on quarterly basis. Germany has been revising their degression rates on monthly basis for the past year.

8. It is important to note that the FiT rate must reflect current market conditions that could be translated into lower amount of subsidies required for the same capacity. This process allows for wider participation from the rakyat and the industry will benefit as well. As the cost of solar photovoltaic system declines and technology improves, continuous monitoring and revising of the degression rates is necessary to ensure that the prices of solar photovoltaic technologies in Malaysia is aligned with the global trend. This will help the local market to grow as it will encourage the solar PV industry to price their systems and services competitively.

Ladies and Gentlemen,

9. I would like to highlight here that by increasing the degression rates for Solar PV, the government is able to expand the renewable energy portfolio in the country for new RE resources such as wind and geothermal. It also allows us to optimize the RE fund for existing renewable resources that could be translated into more quotas for each renewable resources. For instance, more quotas could be allocated for the individuals to promote greater public participation. This effort will improve the percentage of renewable energy generation into the national energy mix and thus reduce our dependence on fossil fuel.

10. An effective degression rate will also overcome the issue of windfall profit which is perceived to have largely profited the PV service providers. Without revising the current degression rates, some PV service providers may retain historical installation prices thereby increasing their profit margins although their basic costs for the PV systems have dropped significantly.

Ladies and Gentlemen,

11. Without further delay I would like to announce that the final degression rate for Solar PV for the year 2013 as follows:

- i) degression rate of **8% is retained** for solar PV generation capacity of up to 24 kW; and
- ii) degression rate for generation capacity exceeding 24kW has been **increased from the current 8% to 20%**.

The degression rates for bonus criteria of locally manufactured PV modules and inverters have been **reduced to 0%**. The new degression rates shall come into effect from March 2013 and is applicable to quotas released in 2013.

12. I would also like to highlight here that the new degression rates were arrived at after a thorough and exhaustive process involving SEDA, the Energy Commission and KeTTHA. The process included the review of tax and excise duties record on components of solar PV system as well as simulations of financial models to ensure reasonable returns to investors. Based on the review, it was also discovered that the current FiT structure can be further improved for managing the degression rates more efficiently. The Ministry and SEDA will undertake this exercise in the coming months.

13. As an ongoing initiative to improve and enhance the administration of the FiT mechanism, SEDA will announce several changes to the FiT guidelines which results in corresponding changes to the e-FiT online

system. I have been made to understand that this has been covered by SEDA's CEO during the morning session.

14. The implementation of the Feed-in Tariff System in Malaysia is mainly to promote growth and to increase the contribution of Renewable Energy in the country's energy mix as well as reducing our dependency on fossil fuels. We will stay true to this objective and we are calling on the industry's support to work together so the RE target that we have set out in the National Renewable Energy Policy and Action Plan can be achieved.

Ladies and gentlemen,

15. The FiT mechanism and its associated legal framework were introduced to ensure the sustainable development of renewable energy in the country. The mechanism is supported by the Renewable Energy Fund, which is financed through the collection of 1% levied on electricity consumers using more than 300 kWh per month. As this is the Rakyat's money, there is a constant reminder that this fund needs to be managed prudently. With the new degression rates, the industry will become more competitive and innovative which will steer the Renewable Energy Industry to become sustainable and profitable for everybody.

On that note I would like to conclude my address. Thank you for your attention and I look forward to receiving your feedback during the dialogue session.

Sustainable Energy Division  
Ministry of Energy, Green Technology and Water  
25 February 2013