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LEGAL UPDATE

Peninsular Malaysia Launches First Competitive Battery Energy Storage Systems (BESS) Procurement Programme

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BACKGROUND

On November 29, 2024, the Energy Commission of Malaysia (Suruhanjaya Tenaga or ST) launched Peninsular Malaysia's first competitive procurement programme for grid-connected Battery Energy Storage Systems (BESS). This initiative supports Malaysia's long-term goal of achieving 70% installed renewable energy capacity by 2050. By enabling large-scale energy storage, the programme will help manage the variability of solar generation and bolster the stability of our national grid.

In East Malaysia, Sarawak commissioned the nation's inaugural utility-scale battery energy storage system, a 60 MW/82 MWh installation at the Sejingkat coal-fired power plant in Kuching. In Sabah, a 100 MW/400 MWh BESS facility is under development and is expected to be operational by the end of the month.

TWO-STAGE COMPETITIVE PROCUREMENT

The BESS programme is structured as a two-stage competitive bidding exercise.

The first stage, the Request for Qualification (RFQ), was issued on November 29, 2024, with a submission deadline of February 12, 2025. At that stage, interested participants were required to submit qualification documents demonstrating their technical expertise, financial capacity, and relevant experience in energy storage or related infrastructure projects.

The second stage, the Request for Proposal (RFP), was launched on May 8, 2025, and will close on July 31, 2025. Shortlisted bidders are now invited to submit detailed project proposals, encompassing, among other things, technical design, commercial pricing, implementation timelines, and contractual arrangements.

PROJECT CAPACITY AND COMMERCIAL OPERATION

The BESS Programme aims to award a total power capacity of 400 megawatts and an energy storage capacity of 1,600 megawatt-hours. They will be implemented under four projects at different locations, all of which are targeted for commercial operation in 2027. Twenty-five interconnection points across Peninsular Malaysia were pre-identified in the RFQ and RFP for strategic grid suitability.

FOREIGN EQUITY RESTRICTION

Malaysia does not maintain a foreign investment screening regime since the Foreign Investment Committee (FIC) was abolished in 2009. Certain strategic sectors, however, remain subject to foreign equity restrictions and may require mandatory participation by Bumiputera or local entities in accordance with national policy guidelines.

Generally, Malaysia has a foreign shareholding restriction of 49% across power and renewable energy projects. This is subject to further restrictions as may be imposed on a specific programme or by the relevant regulatory and state authorities. During the RFQ stage for the BESS Programme, foreign companies can only participate as a member of a consortium with a local incorporated company which have at least 51% Malaysian equity shareholding.

MORATORIUM ON SHAREHOLDING CHANGES

There is generally a restriction on change in shareholding during a moratorium period prescribed under the bidding document for a specific power and renewable energy programme, which may range from five to eight years. The BESS Programme prescribes a moratorium period where there shall be no change to the shareholding structure from the bid closing date until the sixth anniversary of the date the Energy Commission issues a notification for project award. Thereafter, changes to the shareholding structure are only permitted with a prior written endorsement by Tenaga Nasional Berhad (TNB) and written approval from the Energy Commission.

KEY PROJECT DOCUMENTS

In addition to the conventional suite of project documents, the successful bidder will, upon award, enter into a fifteen-year Connection Agreement (CA) with the Grid System Operator (GSO), securing access to the national grid and a fifteen-year Battery Energy Storage Service Agreement (BESSA) with TNB, which governs all storage services - namely, accepting charging energy at the interconnection point, storing energy onsite, and delivering discharged energy back to the national grid. The BESSA will also govern performance guarantees and, among others, a dual-payment structure: Available Storage Capacity Payments (for fixed cost recovery subject to availability thresholds) and Storage Services Payments (for recovery of any variable operating costs).

LOCAL PARTICIPATION AND CONTENT

The BESS Programme emphasises its contribution to local market and economic development. All engineering, procurement, construction, testing, and commissioning (EPCC) work must be carried out by either a CIDB-registered Malaysian contractor or a consortium or joint venture between a Malaysian contractor and a foreign contractor in which the Malaysian partner holds at least a 30% equity or shareholding interest. Bid evaluation also considers the bidder's planned level of local participation, the extent and value of locally manufactured or assembled products, domestic contractors and suppliers, and Malaysian labour.

LAND AND RIGHT OF WAY

Bidders must demonstrate the right to use the proposed BESS site by submitting documentary evidence which may include the document of title, land lease agreement or other form of instruments demonstrating the permission to use the proposed BESS site before executing the BESSA and if interconnection facilities are to be installed outside the BESS site, evidence of the right or permission for those installations. In certain Peninsular Malaysia States, land categorised as agricultural (or other non-industrial category of use) must be converted before it can host a BESS facility. In such cases, the bidder must submit official correspondence from the relevant authority relating to the subject.

A PIVOTAL STEP TOWARD A SMARTER SUSTAINABLE GRID

The launch of Malaysia's first competitive procurement for grid-connected Battery Energy Storage Systems represents a significant milestone in the country's energy transition. By providing greater clarity on regulatory, technical, and contractual requirements, the programme offers a structured pathway for private sector participation in large-scale energy storage. As Malaysia moves toward its 70% renewable energy target by 2050, this initiative will play a crucial role in strengthening grid reliability and facilitating greater solar integration. Stakeholders exploring opportunities in this space should closely consider the emerging legal and commercial frameworks as they signal the start of a broader energy storage market in the region.

Contact Us

Caera Lee
Partner
caera.lee@robinlynnlee.com
www.robinlynnlee.com

Debbie Tang
Associate
debbie.tang@robinlynnlee.com
www.robinlynnlee.com

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