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Vietnam enacts key power sector restructuring reforms

On 7 February 2017, the Prime Minister of Vietnam promulgated highly anticipated Decision No. 168/QĐ-TTg approving a plan for restructuring of power sector in the period of 2016 - 2020 with an outlook to 2025 (**Decision 168**).

This legal update provides a summary of a number of the key highlights from Decision 168.

Key objectives

Decision 168 sets out key objectives of the Government of Vietnam (**Government**) to restructure the power sector in the period of 2016-2020 with an outlook to 2025:

- enhance the effectiveness of production and business in the power industry and strengthen publicity, transparency, fairness and fair competition;
- establish the organisational structure of the power sector in such a manner as to facilitate the operation of wholesale power market in conformity with development orientations of retail power market;
- improve the effectiveness of the power regulation for the purpose of ensuring the sustainable development of the power system; and
- apply electricity prices in line with market mechanism as administered by the State in conformity with the power market development.

Privatisation of Gencos

Decision 168 has a significant focus on the privatisation of State-owned power generation corporations (**Genco**) to enhance competition and productivity in the power sector.

Importantly, the Government will not offer shares of a wholly owned subsidiary operating a power plant on a stand-alone basis. Instead, it will sell shares in a holding Genco which controls over a group of power subsidiaries to potential investors.

In the period to 2018, existing Gencos wholly owned by key State-owned enterprises Vietnam Electricity (EVN), Vietnam Oil and Gas Group (PVN) and Vietnam National Coal - Mineral Industries Group (Vinacomin) are offered for sale in accordance with the approved privatisation plans by which the Government (acting through those State-owned enterprises) will hold at least 51% of the shares in the relevant Genco.

The Government has indicated that it may further divest its shares in those Gencos, and will no longer be a majority shareholder for the period of 2019-2020.

The Ministry of Industry and Trade (MOIT) also approved in its Decision 14318/QD-BCT that the Government will retain approximately 30% of the shares in EVN Gencos in the period of 2021 - 2030.

Power generation

Currently, there are 3 power generation corporations wholly owned by EVN:

- EVN Power Generation Corporation 1 (EVNGenco1);
- EVN Power Generation Corporation 2 (EVNGenco2); and
- EVN Power Generation Corporation 3 (EVNGenco3).

EVNGenco3 holds a total installed capacity of 6,377MW with the following generation assets:

- hydropower plants: Buon Kuop (280MW), Buon Tua Sra (86MW), Srepok 3 (220MW), Thac Ba (120MW), Vinh Son (66MW), Song Hinh (70MW) and Huoi Quang (260MW);
- coal-fired power plants: Ninh Binh (100MW), Vinh Tan 2 (1,244MW) and Mong Duong 1 (1080MW); and
- gas-fired plants: Phu My 2.1 (896MW), Phu My 1 (1,108MW), Phu My 4 (458MW) and Ba Ria (389MW).

As part of the restructuring process, the Prime Minister directed EVN to push ahead with the privatisation of EVNGenco3 in 2017, and the same exercise is required on EVNGenco1 and EVNGenco2 in 2018.

By way of an update, we note that EVN is seeking the Prime Minister's approval on its proposal to offer for sale more than 50% of the shares in EVN Gencos in order to attract investments from foreign strategic investors.

Retention of large-scale strategic power plants

In Notice No. 60/TB-VPCP, the Prime Minister directed EVN to maintain 100% of the shares only in large-scale strategic hydropower plants and certain power plants which relates to the coordination and operation of those hydropower plants, and power transmission and distribution networks.

Large-scale strategic hydropower plants of particular socio-economic importance in terms of national security and defence are specified below:

- Son La hydropower plant (2,400 MW);
- Hoa Binh hydropower plant (1,920 MW);

- Lai Chau hydropower plant (1,200 MW);
- Ialy hydropower plant (720 MW);
- Tri An hydropower plant (400 MW); and
- Tuyen Quang hydropower plant (342 MW).

Power transmission

Vietnam's power transmission networks are not open to private sector investments. As Decision 168 notes, power transmission is exclusively operated by the National Power Transmission Corporation (**EVNNPT**) in the corporate form of a one-member limited liability company under EVN.

Power distribution and retail businesses

Power distribution and retail businesses are operated by EVN power corporations, including:

- Northern Power Corporation (**EVNNPC**);
- Central Power Corporation (**EVNCPC**);
- Southern Power Corporation (**EVNSPC**);
- Hanoi Power Corporation (**EVNHanoi**); and
- HCMC Power Corporation (**EVNHCMC**).

Currently, EVN power corporations are conducting both power distribution businesses and power retail businesses.

Decision 168 anticipates the privatisation of those EVN power corporations in the period of 2021 - 2025 by way of offering shares in such power corporations to investors.

Notably, the Government will allow private investments in power retail businesses. However, it is worth commenting here that power distribution networks controlled by EVN power corporations will remain 100% owned by the Government.

Electricity Regulatory Authority of Vietnam

The Government also directs Electricity Regulatory Authority of Vietnam (**ERAV**) under the MOIT to improve its ability to manage and supervise operation of the competitive power wholesale market and to raise the effectiveness of regulation of power activities.

Development of power sources

Vietnam's revised Power Development Master Plan VII (**Revised PDP 7**) under Decision No. 428/QD-TTg focuses on energy security, energy efficiency, renewable energy development and power market liberalisation.

The development of power generation sources is emphasised with an attempt to accelerate the expansion of renewable energy sources, including hydropower, wind power, solar power and biomass power.

By 2020, the total installed capacity for power generation in Vietnam is forecasted to be 60,000MW, including:

- hydropower plants: 21,600MW (30.1%)
- coal fired power plants: 26,000MW (42.7%)
- gas fired power plants (including LNG): 9,000MW (14.9%)
- renewable energy: 9.9%; and
- imported power: 2.4%.

By the end of 2016, EVN owns 26,000MW (62%) installed capacity out of Vietnam's total system of 41,600MW.

Conclusion

While its practical impact remains to be seen with the privatisation of EVN Gencos in a near future, Decision 168 nonetheless clearly signals that Vietnam continues to adopt a gradual and incremental approach to introducing and implementing power sector restructuring reforms.

Foreign investors will have access to a broader and more diverse range of potential acquisition opportunities from the sale of State-owned power assets albeit within the limit of Vietnamese statutory constraints in certain required timeframes. It could be that the stage is set for stronger M&A in 2017 and 2018.

Key contacts

If you have any questions, or would like to know how this might affect your business, please contact these key contacts.



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