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Decision on new ceiling electricity price mechanism for transitional renewable energy projects

On 07 January 2023, the Ministry of Industry and Trade (**MOIT**) issued Decision No. 21/2023/QD-BCT (**Decision 21**) on the official power price framework for the transitional renewable energy (**RE**) projects. Accordingly, EVN and transitional RE investors will negotiate to reach a selling power price which does not exceed the price regulated in Decision 21 (**Ceiling Price**). This decision is the result of previous calculations on power price submitted by EVN to MOIT. The Ceiling Price is the first rescue signal for transitional RE owners as their projects have been installed for a long time since the FIT price expiration. However, the new power price is far lower than the FIT price stipulated in Decision No. 39/2018/QD-TTg (**Decision 39**) for wind power and Decision No. 13/2020/QD-TTg (**Decision 13**) for solar power, hence, not every project will enjoy optimal profitability with this price bracket.

In this legal update, we will highlight several remarkable information for the power project investors about the new power price framework.

1. Entities applicable to the new ceiling renewable energy price

Under Article 1 of Decision 21 and Article 1.2(b) of Circular No. 15/2022/TT-BCT of MOIT dated 03 October 2022, there are two main group of entities applicable to the new ceiling renewable energy price as follows:

- (a) Transitional solar power project owners having entered into power purchase agreement (**PPA**) with EVN before 01 January 2021 but not satisfying conditions to be applied FIT price, which are:
 - (i) having in-principle investment decision granted by competent authority (i.e., local PC or MOIT) before 23 November 2019; and

(ii) having commercial operation date between 01 July 2019 and 31 December 2020.

Following the review of MOIT, noted in the PDP8 draft, there are 2,428.4MW that have been approved, of which 5 projects/parts of projects with total capacity of 452.62MW completed and installed but not yet connected to the grid including Phu My 2 (BCG); 170MW Trung Nam Thuan Nam (Trung Nam Group); Thien Tan 1.2 and part of Thien Tan 1.3, 1.4 (T&T Group). Moreover, there are 11 projects with total capacity of 426MW that have signed contracts for equipment procurement, including Duc Hue 2 (GEG), Phuoc Thai 2, 3 (EVN), Krong Pa 2 (BCG).

(b) Transitional wind power project owners having entered into PPA with EVN before 01 November 2021 but not having commercial operation date before 01 November 2021. According to EVN report, there are 62 remaining wind power projects that did not finish the FIT race in November 2021 with total capacity of about 3,479MW. We highlight some of the outstanding from listed company such as Tan Phu Dong 1 (100MW – GEG), VPL Ben Tre 2 (30MW – GEG), Tra Vinh Phase 1 (80MW – BCG) and Khai Long Phase 1 (100MW – BCG).

2. The new price framework for transitional solar power and wind power projects

Before, as requested by MOIT, EVN has submitted to MOIT the calculation on the RE price with four options for each of these four types of power. The Ceiling Price under Decision 21 is promulgated based on such calculation and the suggestion of EVN to MOIT. Accordingly, the transitional RE project owners will discuss with EVN on the power price which does not exceed the Ceiling Price for each type of RE.

(a) The new price framework for transitional solar power projects

(i) According to Decision 21, the Ceiling Price for ground-mounted solar power (**GSP**) is VND 1,184.90/kWh, 29.5% lower than the FIT price stipulated in Decision 13 (i.e., VND 1,644.0/kWh). This Ceiling Price is also lower than the price suggested by EVN for ground-mounted solar power, which is VND 1,188.0/kWh (option 4).

(ii) Besides, the Ceiling Price for floating solar power (**FSP**) is VND 1,508.27/kWh, 17.3% lower than the FIT price stipulated in Decision 13 (i.e., VND 1,783.0/kWh). Noting that EVN has also calculated four price options for FSP submitted to MOIT and option 2 (i.e., VND 1,569.8/kWh, higher than the official price) was suggested to be applied to FSP.

(b) The new price framework for transitional wind power projects

(i) The Ceiling Price for onshore wind power projects is VND 1,587.12/kWh, which is lower than suggested price of EVN (i.e., option 1 – VND 1,590.0/kWh), and 21.2% lower than FIT price stipulated in Decision 39 (i.e., VND 1,928.0/kWh).

(ii) The new Ceiling Price for offshore wind power projects is VND 1,816.0/kWh, which is lower than suggested price of EVN (i.e., option 2 – VND 1,944.9/kWh), and 21.8% lower than FIT price stipulated in Decision 39 (i.e., VND 2,223.0/kWh).

3. Several opinions on the new ceiling price for transitional RE projects

- (a) This new RE ceiling price is the rescue signal for transitional RE owners whose projects have been delayed for a long time after the expiration of FIT price.

Due to the heavy impact of the Covid-19 pandemic, there are 84 renewable energy projects with a total capacity of 4,871.62 MW (including 4,184.8 MW of wind power and 491.82 MW of solar power) has been behind schedule for commercial operation (COD). This delay prevents these projects from enjoying FIT price as stipulated in Decision 39 for wind power and Decision 13 for solar power. Consequently, transitional RE project investors had to wait for a long time for the Government to issue a new electricity generation price mechanism as a premise for determining electricity selling prices. As expected, the issuance of Decision 21 effectively set the ground for EVN and transitional RE owners to determine the power selling price. EVN will rely on this price to make payment to the transitional RE investors for the power generated from COD up to now, thus release the biggest concern of the transitional RE investors.

- (b) This price framework may not meet the expectation of transitional RE project investors because of the following reasons:

(i) The new price framework is denominated in VND instead of USD. Noting that the RE price under Decision 13 and Decision 39 are denominated in USD and will be converted to VND based on the then-current exchange rate at the invoicing date. Therefore, the transitional RE investors will not enjoy the USD-VND exchange rate increase.

(ii) The new price for transitional solar projects (VND1,184/kWh) is based on the fourth calculation option in the EVN's report, which calculated using the input parameters of only two solar power plants – Phuoc Thai 2,3. The three other options which both provided a higher price of around VND1,500/kWh calculated from average value of a much larger sample size (more than 100 projects). In fact, using the estimated value from the larger sample is generally more representative and objective.

(iii) Not all transitional projects will be profitable at this price level. Concerning the shortcomings in the electricity generation pricing mechanism for transitional RE projects, 36 RE investors submitted petitions to the Prime Minister proposing to recalculate the transitional RE price. The petition states that the calculation of RE price is legally inadequate and thus leads to financial inefficiency. However, right after that, ERAV issued an official letter responding to the petition. The response explains that the calculation of RE price fully complies with Vietnamese laws. In our opinion, the RE price will stay unchanged due to the rationale of the explanation stated in the response by ERAV.

- (c) The transitional price requires operating ability at optimal level. It will no longer be a gift for everyone, the transitional price requires investors to demonstrate their ability in develop and operating projects.

In order to enhance the profitability under the new price framework, RE owners need to put hard effort to cut investment cost, operating costs and loan interest. Therefore, we see

enterprises with experiences in developing and operation projects, as well as the ability to access low-cost capital will have advantages during this period.

On a separate note, MOIT has requested EVN to urgently coordinate with Transitional RE owners to negotiate and reach agreements on power prices before 31 March 2023. However, by the end of 31 March 2023, only 06 investors have submitted documents to EVN for power price negotiation.

- (d) Despite of the low selling RE price, there is still a lot of room for enterprises to improve their projects efficiency. It is noteworthy that the two following factors are key factors that help reducing cost for RE projects in the upcoming years
 - (i) On December 14, Vietnam and G7 countries with their partners – the European Union, Norway, Denmark, approved a declaration – the Just Energy Transition Partnerships (JETP) to support Vietnam’s green energy transition. Accordingly, the initial plan is to mobilize about US\$15.5bn from both public and private sectors over the next 3-5 years to help Vietnam actualize the goal of net-zero carbon emission by 2050. These abundant capital sources with low-interest rates are flowing rapidly into Vietnam. As a result, transitional RE project owners still have opportunities to restructure their debt in the following years;
 - (ii) According to the PDP8 draft, RE investment cost will gradually drop in 2022 - 2030 period, which will be a supporting factor for the development phase of the upcoming projects. At the same time, the lower development cost will partly offset the low mobilized price under the transitional price framework of Decision 21, especially for solar power. Particularly, solar farm and onshore wind power development cost will stably decline 1.5% per year. While for offshore wind power, the reduction rate is recorded at 3% in 2022 – 2045 period. Therefore, the lower development cost will help in lowering levelized cost correspondingly and the cost downward trend will consequently help businesses to release cost pressure in short and long term.

4. Conclusion

The transitional RE price will serve as the foundation for EVN and transitional RE investors in determining the power price. MOIT can base on the result of the application of this transitional RE price to continue carrying out further guidance for newly developed RE projects. Moreover, the transitional price is a necessary test, for authorities in general, to carefully evaluate and improve for the next official price mechanism. Under the Vietnam’s strong commitment in COP26, along with adjustment in the latest PDP8 draft – favoring toward RE, an attractive competitive price mechanism is still expected to continue encouraging qualified investors to participate in this field.

Further, businesses with strong ability to optimize developing and operating cost, as well as strong capability to mobilize capital will stay ahead in this period.

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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