

VIETNAM

RENEWABLE ENERGY PROJECTS: AN IMPORTANT
STEP TO DETERMINE TARIFFS FOR TRANSITIONAL
SOLAR AND WIND POWER PLANTS

VDB | *Loi*

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Over the last few years a lot of attention in Vietnam was focused on the possible rate of tariff that should apply to the transitional solar and wind projects, i.e. projects that were initiated earlier, but did not meet the deadline of the previously introduced feed-in-tariff. The opportunities to become eligible for such feed-in-tariff expired on 31 December 2020 for solar, and on 31 October 2021 for wind projects.

At the moment, there are still many renewable energy projects already approved, remaining at different phase of construction, but that did not qualify for the feed-in-tariff scheme.

It has been so far subject to unresolved uncertainty as to which tariff would eventually apply to such projects. This in turn meant lack of clarity for the developers in relation to the potential rates of return and possibility to obtain external project financing.

On 3 October 2022 the Ministry of Industry and Trade (MOIT) issued Circular 15/2022/TT-BCT ("**Circular 15**") providing for the regime and method of formulating ranges of power generating tariffs for transitional solar and wind power plants.

ELIGIBLE PROJECTS

Circular 15 applies to Vietnam Electricity ("**EVN**") and organizations and individuals investing in:

1. solar power plants that have signed power purchase agreement (PPA) with EVN before January 1, 2021; or
2. wind power plants with PPA signed before November 1, 2021,

but did not meet the eligibility criteria for the feed-in-tariff under Decision No. 13/2020/QD-TTg dated April 6, 2020 and of Decision No. 39/2018/QD-TTg dated September 10, 2018.

The Circular 15 strongly emphasizes that such power plants must nevertheless adequately comply with regulations and law on investment, construction, adhere to absorption capacity of the national electrical grid and the ability to release capacity of electrical grids; strictly comply with electricity price structures at the time of operation, and assume responsibilities for project effectiveness according to the approved regulations.

Important to note that **those projects that have signed PPA with EVN** qualify for the purposes of this Circular 15. Projects that do not have a signed PPA can be expected to be subject to separate regulation.

Further to note is that at this stage Circular 15 does not specifically regulate how project-specific tariffs will be negotiated on the basis of the established tariff range.

WHAT REGULATORS ARE EXPECTED TO DETERMINE

The Circular provides for the procedure to determine a so-called **maximum or ceiling tariff**, being the tariff applicable to the **Standard Power Plant**. In turn, a Standard Power Plant is deemed to be a power plant with capacity of 50 MW.

Circular 15 provides for a formula to determine the maximum tariff taking into account the **average fixed costs** and **fixed O&M** costs of the project.

PROCEDURAL STEPS FOR IMPLEMENTATION

The Circular 15 takes effect on **25 November 2022** and within 15 days from the effective date, project developers are expected to provide feasibility study or technical design information to EVN. Data from these documents will be used to determine the Ceiling Tariffs.

EVN may on its own (or by engaging a consultant) determine specifications, calculate, and determine electricity generation price range of the standard solar power plant and standard wind power plant in accordance with guidance of the Circular 15.

Within 45 days from the effective date of Circular 15, EVN is responsible for developing electricity generation price range of ground-mounted solar power plants, floating solar power plants, onshore wind power plants, and offshore wind power plants. Such ranges would then need to be shared with the Electricity Regulatory Authority of Vietnam (ERAV) for assessment.

Within 45 days from the date on which adequate documents on calculating electricity generation price range are received, ERAV will perform the appraisal of the electricity tariff range using methods prescribed in the Circular 15.

Within 10 working days from the date on which appraisal results are concluded, ERAV will finalize the documents and request the MOIT to approve electricity generation price range applied to the aforementioned power plants and shall publish that on its website.

It is thus expected to roughly take 3 to 4 months to have such tariff scheme finalized and commercialized.

PROJECT FINANCING ASPECTS

From the perspective of financing relevant projects, it is worthwhile to note that when describing various parameters to be used in the maximum tariff calculation formula, Circular 15 provides that:

1. the average loan repayment period is assumed at 10 years;
2. the debt-to-equity ratio is assumed at 70:30; and
3. the period of economic life of the project is assumed at 20 years.

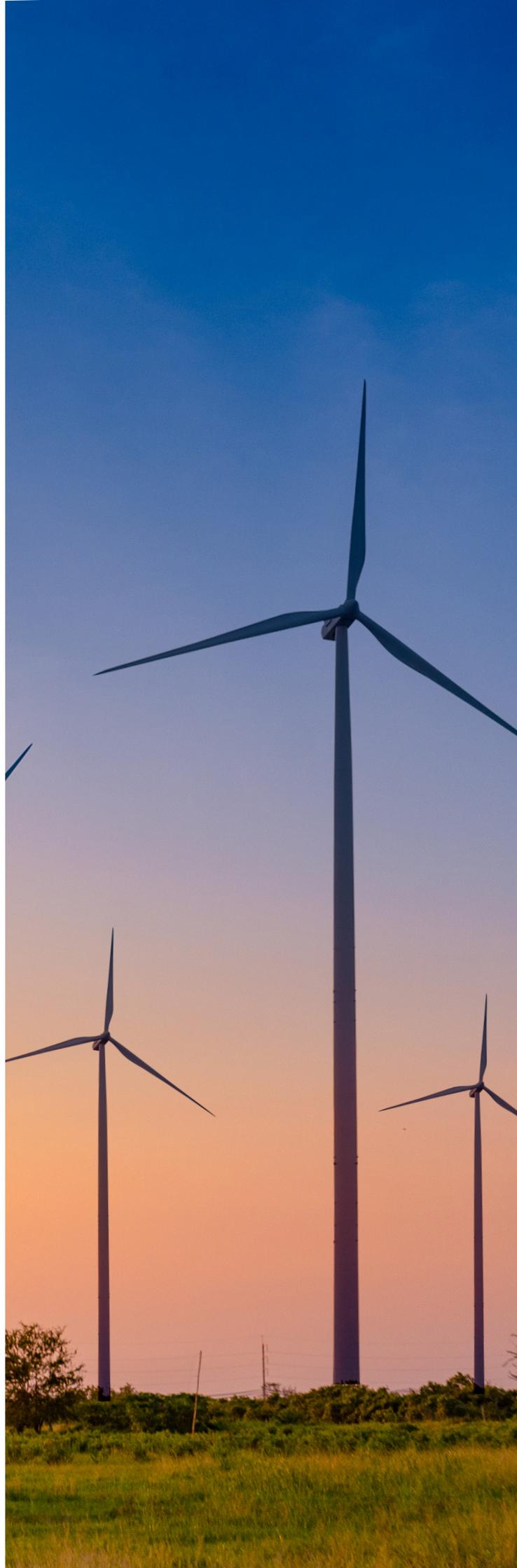
AMENDMENTS TO PPAS; PATHWAY TO PROJECT FINANCING; REFINANCING

Based on Circular 15, it may be expected that in a few months a lot of work would need to be done by the government authorities and developers: negotiating amendments to the pre-existing PPAs to reflect the pricing on the basis of the thresholds to be determined in accordance with the Circular 15. Further regulatory decisions on this can also be expected. The practice of developing such amendments and their scope (i.e. whether they will be limited to pricing only, or other amendments can or need to be introduced), would be developed.

These changes will hopefully also unlock more opportunities to arrange project financing or refinancing of earlier obtained debt on improved terms for the transitional solar and wind projects.

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KEY TEAM MEMBERS IN VIETNAM



JEAN LOI
Managing Partner
jean@vdb-loi.com



GIANG PHAM
Partner
pham.giang@vdb-loi.com



MAXIM KOBZEV
Partner
maxim.kobzev@vdb-loi.com



THUAN PHAM
Director
thuan.pham@vdb-loi.com



MY LE
Director
my.le@vdb-loi.com

VDB LOI

HO CHI MINH OFFICE

Level 16, Unit 1638
Bitexco Financial Tower
2 Hai Trieu Street, Ben Nghe Ward
District 1, Ho Chi Minh City 700000
T: +84 708 283 668