

Renewable Energy Market Post New Price Scheme.

PETITION

Thirty six (36) investors in renewable energy (RE) field have recently submitted an official petition to Prime Ministry regarding the inadequacies and difficulties of the new price basket for transitioning RE in accordance with the Decision 21/QD-BCT issued in Jan 2023. Accordingly, they stated that due to heavily impact by the pandemic – COVID-19, eighty four (84) RE projects with total capacity of 4,872 MW including 4,185 MW wind power and 492 MW solar, were behind schedule and therefore unable to connect to national grid system before FIT expired.

Notably, there are thirty four (34) projects - 2,091 MW (28 wind power: 1,638 MW & 6 solar: 452 MW), with 85,000 bn VND capital investment, in which 58,000 bn VND from bank loan, which have passed the construction and experiment phase and are ready for operation, but have been postponed while waiting for the Government to finalize the policies and procedures, which are used to pave the way for EVN to negotiate the selling price for RE post FIT era.

Nonetheless, it has been two (2) months since Decision 21 was issued, and despite the documentary 94/BCT-DTDL issued at the beginning of Mar to boost EVN to settle an official price level with transitioning RE's investors, it was unsuccessful. The reason for this is that the investors in these RE project were dissatisfied and opposed the new price scheme, which was c.23 % lower than FIT in average; hence if applied even with ceiling price, it could lead to a substantial deficit and bankruptcy. Therefore, the 12% ROE in Circulars 15/2022-BCT issued by Oct 2022 would not be applicable.

In addition, investors also believed that the new Circular 01/2023/TT-BCT has abolished a number of important regulations in Circular 02/2019/TT-BCT and 18/2020/TT-BCT, which were designed to appeal investments in RE sector consisting of three (3) major points:

- a) Twenty-year (20) power purchase agreement (PPA) commitment.
- b) The clause to convert the electricity purchase price into US dollar.
- c) The obligation to purchase the entire output from the grid-connected generator at the delivery point.

Furthermore, these new policies would have negative influences to the financial plan as well as investors' benefits to attract domestic and international investments. In the long run, this will lead to stagnation or postponement of later RE projects, as well as damage the Government's policies and commitments in energy transition, reducing down carbon emission by net zero by 2050.

To sum up, RE's investors demand the Prime Minister reconsider the new price mechanism for transitioning RE projects, which maintains the former regulations in previous PPA contract and Circulars; meanwhile; allowing these projects to commence operation, record output volume and be reimbursed correspondingly to the new price bracket in order to avoid national resources-wasting. Moreover, investors also desired that the Government rapidly finalize the mechanism of direct power purchasing agreement (DPPA) between producers and consumers.

RESPONSE

The Electricity Regulatory Authority of Vietnam (ERAV) – Ministry of Industry and Trade (MoIT) immediately released a written response affirming the legitimacy of the new electricity price calculation process. For the formation of price basket, the MoIT consulted with an independent advisory council of nine (9) experts from various fields including electricity, pricing, finance, and state energy management for price bracket establishment.

In addition, the applicable price basket were appraised on a set of input parameters such as business investment rate, which were received from RE facilities that had signed contract with EVN prior to the FIT expiry. For further clarification, ERAV explained that FIT was an incentive policy for the development of RE sources in a certain period of time; whereas the new pricing structure were determined on the grounds of actual costs cited in feasibility study reports gathered from those RE generators in a survey. Moreover, it also accounted for other factors including transition, distribution, operation and ancillary services to satisfy the interests of all parties.

A short time later, EVN has also invited all investors in transitioning RE projects to a conference on Mar 20th, 2023 afternoon, to discuss about Circular 15/2022/TT-BCT and Decision 21/QD-BCT.

COMMENT

After conducting a financial model with certain assumptions, we are slightly on the side of RE investors. The new price basket would drive to a considerable drop in cash flows and net earning, resulting in insufficient to cover operational expenditures, particularly interest expense and principal payment within the same financial term.

Assumptions:

- An large enterprise owns all 34 projects, resulting in efficient operation.
- These projects are put in operation promptly, and prior to mobilization of full capacity.
- Applicable price cap in Decision 21/QD-BCT.

Project Information	Wind power	Solar
Capacity: MW	1,638	453
Net debt: bn VND	58,000	
Capital: bn VND	85,000	
Investment rate: bn VND / MW	41	
Assumption		
Debt payoff duration: year	10	
Life expectancy: year	25	
Price: VND / kWh	1,587	1,185
Interest rate	12%	
Average mobilization rate	40%	25%
Average mobilization hour	3,504	2,190
Average gross margin	55%	55%
Forecast		
Revenue: bn VND	10.284	
Gross profit: bn VND	5,656	
Depreciation: bn VND	3.400	
EBITDA: bn VND	9.056	
Interest Expense: bn VND	6.788	
Principal payment: bn VND	3.198	

Briefly, the interest expense and principal payment are up to 10,000 bn VND, while EBITDA is only around 9,000 bn VND, indicating “the firm” suffers negative cash flow and earning, of about 1,000 bn VND, without even accounting for other expenses such as maintenance, overhaul, currency rate, and taxes. In addition, we have not taken into account the effect from foreign debt on these projects in terms of the fluctuation of USD / VND and interest rate.

As a result of volatile financial model and uncertain outcome in the context of ongoing high interest rate and unstable exchange rates, it would be difficult to promote investment in forthcoming RE projects, culminating in the failure of the Government's commitment to achieve net zero emissions by 2050 at COP26 and COP27. We expect after the conference, the price level will be modified in a more positive direction, reviving investors' interests in RE sector.

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Appendix

Company		Project	Capacity: MW
Total		34	2.090,97
Wind power		28	1.638,35
1	The Sunpro Ben Tre wind power No 8 LLC	Sunpro	30
2	Tien Giang wind power JSC	Tan Phu Dong 1	100
3	VPL power JSC	VPL Bến Tre	4.2
4	Ecotech Tra Vinh RE JSC	Hiep Thanh, Ben Tre	66
5	Chu Prong Gia Lai wind power JSC	Mountain Development	50
6	Chu Prong Gia Lai wind power JSC	Highland	50
7	Huong Linh 3 wind power JSC	Huong Linh 3	30
8	Huong Linh 4 wind power JSC	Huong Linh 4	30
9	Ocean RE JSC	Dat Bridge	68
10	Suer Wind Energy Cong Ly Soc Trang JSC	Cong Ly	30
11	Cho Long wind power JSC	Cho Long	105,5
12	Hoa Dong 2 wind power LLC	Hoa Dong 2	45,6
13	Yang Trung wind power JSC	Yang Trung	145
14	Lac Hoa 2 wind power LLC	Lac Hoa 2	130
15	Thuan Nhen Phong 1 wind power LLC	Thuan Nhen Phong	11,4
16	Vien An Ca Mau enegy LLC	Vien An	50
17	New World Ben Tre JSC	Thanh Hai 2,3,4	85.75
18	Huong Hiep 1 wind power JSC	Huong Hiep 1	25.5
19	Vinh Chau BPP wind Power LLC	Soc Trang No 3	29.4
20	UPC Vietnam (HK) Limited	Lac Hoa, Soc Trang	30
21	UPC Vietnam (HK) Limited	Hoa Dong, Soc Trang	30
22	DakDrung Dak Nong LLC	DakDrung Dak Nong 1-2-3	140
23	Gia Lai green energy investment JSC	la Pech	33
24	Gia Lai green energy investment JSC	la Pech2	50
25	Tan Tan Nhat JSC	Tan Tan Nhat, Dak Glei	50
26	RE 2 LLC	Wind power No 1 – Binh Thuan	30
27	Hanbaram wind power JSC	Hanbaram	93
28	Gia Lai wind power development JSC	Hung Hai Gia Lai	96
Solar			452,62
1	Ninh Thuan energy technology JSC	Thien Tan 1.2	80
2	Ninh Thuan energy technology JSC	Thien Tan 1.3	32
3	Ninh Thuan energy Investment development LLT	Thien Tan 1.4	80
4	Vision development green energy investment JSC	Phu My 1	64.75
5	Vision development green energy investment JSC	Phu My 3	23.75
6	Trung Nam Thuan Nam Solar power LLC	Trung Nam – Thuan Nam	172,12

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