

POWER AND ENERGY POSITION PAPER

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The government has done a good job in ensuring sufficient energy through 2014, however the members of the Working Group and their respective Chambers, Business Associations and member are quite concerned about the uncertain outlook of power supply over the next 7 years.

Vietnam's plans to move from dependence on hydropower to coal haven't been realized thus far, with new coal capacity failing to come online as expected and Vietnam becoming a net coal importer ahead of schedule. Meanwhile electricity demand is expected to continue to grow at high double digits rates through 2020.

When looking at alternate energy sources, large hydro is almost fully tapped, and natural gas and nuclear have potential, but the rate of development has been slow and targets are not being met. Overall, there have been continued public infrastructure delays, resulting in delays of expected benefits.

Hence, the newly activated Power and Energy Sub-Working Group is concerned that energy supply may fall below peak demand, especially in the south, and intensely in the dry season. During the National Workshop on Renewable Energy Pilot project in Me Kong held in September 2014, participants heard that rural communities reported not having electricity one day a week. The Working Group would like to focus on Renewable Energy as a solution to Vietnam's short-term energy needs and to contribute by proposing and working out solutions for Vietnam based on approaches that have worked in other countries, with the support of Ministry of Industry and Trade ("MOIT").

The main positions of the Power and Energy Sub-Working Group follow:

- Renewable energy is best positioned to support Vietnam's energy needs in the near future due to its scalability during a short time frame (2 years), with wind at the forefront due to extensive pipeline (4.4 GW of registered projects) and existing government support policy.
- In order to bolster renewable energy, the Working Group supports the creation of an attractive investment environment for these sectors. As such, the Working Group backs the recommendations put forth by MOIT consultants, which call for an increase in the Feed-in tariff ("FIT") level for wind energy and simplification of application processes. The Working Group is also in support of MOIT's work on a FIT for biomass. Additionally, in order to improve the investment climate for solar PV, fiscal supports are proposed e.g. accelerated tax credits to allow the cost of solar power investments to be recovered against corporate taxes in the first 2 years following investment, and a value added tax reduction.
- Critical to realizing the scalability benefits of renewable energy will be the ability of the state grid to absorb the additional energy capacity from renewable energy sources. Hence, the Working Group supports efforts to modernize the grid and prepare the grid system for connecting to large-scale renewable energy capacity. This includes both infrastructure hardware and legal framework for direct power purchase agreements between generation utility and end users as was discussed in June's VBF Mid-Term Forum.
- Vietnam Electricity Group ("EVN") continues to run at a loss and electricity costs remain the lowest in the region. This limits both direct investments in grid infrastructure and energy efficiency efforts by customers. It is suggested to continue and accelerate the adjustment of energy tariffs for a sustainable power sector development in Vietnam. This will enable EVN

in restructuring and becoming more profitable following international practices, hence will open access to private investment both domestically and internationally, and will stimulate greater energy efficiency efforts from end use customers. Price adjustments enabling a healthy energy market would prevent brownouts, and power shortages, which currently impact industrial development and employment.

- The donor community has an important role to play to ensure a thriving, sustainable, private sector-backed renewable energy industry. The Working Group requests the assistance of donor organizations to target financing towards private sector investments in the energy sector and to facilitate project finance structures with credit/sovereign risk to be covered by bilateral governments as opposed to the need for government guarantees, which are accessible to few projects.
- Finally, the Power and Energy Sub-Working Group emphasizes that the proposed strategy to support Vietnam's successful exploitation of natural resources for stable energy supply goes in line with the expected realization of Free Trade Agreements ("FTAs") and to strengthen the private sector and SMEs to take advantage of upcoming FTAs. The expected boost in Vietnam's GDP and economic development, which is expected as a result FTAs, will be founded on a strong power supply.