

VIETNAM PRICING MECHANISM FOR NEW SOLAR AND WIND POWER PROJECTS

INCREASE OF EVN'S RETAIL PRICE TO END-USERS

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A. PRICING MECHANISM FOR NEW SOLAR AND WIND POWER PROJECTS

Under the previous mechanism, solar and wind power plants were entitled to a favorable feed-in-tariff (“**FiT**”). In particular, the applicable FiT for solar power plants was US cents 9.35/kWh, US cents 8.5/kWh (for onshore wind power projects), and US cents 9.8/kWh (for offshore wind power projects), respectively. These favorable FiTs apply for 20 years commencing from the commercial operation date of each project. They do not apply to new solar and wind projects that have been licensed after 2022.

On 1 November 2023, the Ministry of Industry and Trade (“**MOIT**”) issued a new regulation on pricing mechanisms (Circular 19) that apply to new solar and wind projects. Circular 19 will take effect on 19 December 2023. There are a number of notable points in Circular 19:

- (1) The applicable price for new solar and wind projects is denominated in VND (not in US dollars). As there is no foreign exchange component in the formula that is used to determine the applicable price for new solar and wind power projects, foreign exchange risks exist if these new energy projects are financed and funded by foreign loans denominated in US dollars or in other foreign currencies.
- (2) Currently, any FiTs apply to all solar power projects on a nation-wide basis. This rule has been changed. Under Circular 19, the price which will apply to solar power plants located in different regions will vary (due to the fact that the average annual radiation intensity in the North, Central and South is different).
- (3) The price of electricity generated by new solar and wind power projects will be adjusted on an annual basis (instead of a fixed FiT for 20 years). In theory, the applicable price may be increased or decreased. It is likely that the applicable price will increase year by year. It will be hard to determine the payback period of a particular project if the applicable price (for the entire duration of the project) remains uncertain from the outset. Adjustments and projections will need to be made.
- (4) The electricity generated by new solar and wind power projects will be determined, computed and based on a number of factors: (i) investment costs of a standard power plant; (ii) operating and maintenance costs; (iii) interest expenses and loan duration; (iv) an 80/20-ratio of domestic and foreign loans (i.e. the maximum foreign loan component

is limited to 20% of the total loan capital); (v) capacity and production volume; (vi) life cycle of plant (20 years); (vii) after-tax profit and equity ratio (12%); (viii) corporate income tax; etc.

- (5) On or before 1 November of each calendar year, EVN will itself (or by engagement of a valuer) determine the price of electricity generated by new solar and wind power projects.
- (6) Within 35 business days from the date on which EVN submits the proposed price for the following year, the MOIT will review, approve and announce the applicable price for the following year. The existing price can be applied until the new applicable price is announced by the MOIT.

B. INCREASE OF EVN'S RETAIL PRICE TO END-USERS

On 8 November 2023, Electricity of Vietnam (EVN) issued a new decision (Decision 1416) to increase its selling prices. Accordingly, the average selling price is 2,006.79 VND/kWh (an increase by 4.5%). This is the second time in 2023 that an increase has been made. The new price applies from 9 November 2023. Consequently, large commercial consumers (e.g. cement and steel producers) will be particularly affected by the increase.