

POSITION PAPER OF POWER & ENERGY WORKING GROUP

Prepared by
VBF Power & Energy Working Group

The Vietnam Business Forum, Power and Energy Working Group will be distributing the Made in Vietnam Energy Plan 2.0 for consultations talks and comments from key authorities in July 2019.

I. MVEP 2.0 recommends a diversified energy system that prioritizes use of Vietnam's domestic energy resources

Based on consultations with business leaders and a careful review of national and international trends, MVEP 2.0 proposes these six business-oriented recommendations that would improve the reliability and affordability of Vietnam's energy system:

1. Prioritize renewable energy in national power planning

There are alternative scenarios where renewables (excluding hydropower) could account for up to 30% of capacity by 2030¹. These alternative scenarios, which are aligned with Vietnam's Nationally Determined Contribution (NDC) commitments, require regulatory support and incentives to leverage private sector investment now seeking opportunities to invest in Vietnam. Engaging the private sector, with their experience in market analysis, finance, and the power consumers' needs, in developing Power Development Plan VIII would increase the effectiveness of the planning process.

2. Increase use of natural gas as the current best-fit baseload for renewable energy

MVEP recommends tax levelization for the development of certified on local offshore gas and the importation of LNG as the current best fit baseload for renewable energy. Gas-fired electricity can easily scale to the size necessary to meet the significant demands of Vietnam, and can respond to intermittent load fluctuations and outages more rapidly than coal. Furthermore, while battery storage can potentially provide Vietnam with future intermittent load options, offshore gas and LNG projects have the developers, investors and financing to make them bankable now. Incorporating imported LNG supply into the energy-mix adds to Vietnam's energy security while long-term supply contracts for domestic offshore gas are developed. LNG is much cleaner than coal as it only produces roughly half of the CO₂ emissions compared to coal. When disease, death and coal-ash cleanup are also counted, gas becomes even more affordable than coal.

Under the current tax regime, the development of offshore gas fields in Vietnam can either provide significant revenues to the government through taxes and royalties – or if taxes and royalties are reduced the projects become more affordable for the consumers. The share of gas-to-power in the 2030 energy mix should be increased in PDP VIII.

3. Construct a regulatory and permitting environment that attracts private sector investment in clean energy generation and energy efficiency

¹ Green ID 2018 and McKinsey 2019.

PPA: MVEP 2.0 recommends that the standard Power Purchase Agreement (PPA) for wind and solar energy projects be made internationally bankable by establishing Feed-in Tariffs (FITs) well in advance and reducing regulatory hurdles. We strongly urge transparency regarding any changes to FITs and encourage discussion on how to navigate the permitting process of master plan approval. Ultimately, these efforts should lead to a decline in investor risk and the ability to decrease FITs as renewable energy projects become simpler and more profitable. Additionally, definitive regulatory frameworks for floating solar, battery energy storage systems, offshore wind, and access to clean energy by direct power purchase agreements will unlock a much greater potential for renewable energy projects.

DPPA: MVEP 2.0 recommends Direct Power Purchase Agreement regulations that promote access to clean energy for end users by local power generation and storage. DPPAs can accelerate renewable energy development between buyer and seller and relieve pressure on EVN. This report encourages the government to seize the benefits of facilitating easy investment in *behind-the-meter* solar, battery, biomass, and waste-to-energy plants by developed by power consumers and specialist suppliers. This regulation will develop a new dynamic market model while preserving a safe and reliable power supply.

Tariffs: The result of Vietnam's current low energy tariffs can be seen in the country's high level of energy inefficiency and too high growth rate in demand. MVEP 2.0 recommends the publication of a Roadmap to Retail Electricity Tariffs to 2025 for Vietnam with particular focus on the commercial and industrial sectors. The Roadmap must describe the move towards market-based pricing and should specifically address the occurrence of peak load on the transmission system during business working hours (9.30am to 12.30pm and 1.30pm to 3.30pm) and incorporate a differential retail price for power across the regions. To compliment the Roadmap, it is also important to have a promotional campaign aimed to educate stakeholders on the need for, and benefits of, energy efficiency. Raising awareness for more efficient use of electricity, the available incentives, and the rationale for low-carbon power development will help the public engage with and understand the energy industry as tariff rates rise.

4. Construct a regulatory and permitting environment that attracts smaller scale off-grid investment and increase efficiencies that will encourage clean energy generation and energy efficiency

Rooftop: VBF Recommended in its submission to the solar energy rooftop draft regulations in 2017 that the exemption from the requirement to obtain Power Operation License should be increased from 1MW to 3MW. VBF continues to recommend that MOIT considers increasing the exemption to 3MW to fully capture the benefits of investment in solar rooftop energy systems.

Behind-the-meter: VBF recommends that behind the meter clean energy power generation, that export no power to the EVN Grid are:

- a. Exempted from the need to obtain an Operating License up to 30MW capacity
- b. Not required to seek approval in the National Energy Development Masterplan
- c. Required to give EVN reasonable notice of when the power plant is to be commissioned

Efficiencies: Vietnam's energy intensity per capita is among the highest in the region - for the period between 2009-2013 it was well above every country in the region, especially higher than those countries with a similar level of GDP per capita. In addition to a public education campaign, the report recommends the development and enforcement of regulation on building code, appliances, and heavy machinery that reduces energy intensity at manufacturing, commercial and residential.

5. Invest in grid infrastructure to improve stability and capacity

As renewable and natural gas energy sources grow in contribution to the grid, there are challenges associated with incorporating more decentralized power plants that provide intermittent power supply. Given the surging increase in solar and wind generation, especially in the southern region, there is an urgent need for investment to strengthen and expand the transmission and distribution network. Further, there are likely opportunities to include and leverage private sector and international donor expertise in the area of renewable energy grid integration, battery storage, and flexibility.

6. Halt any new approvals for coal

Given the numerous concerns related to expanding coal capacity in the direction of the PDP VII, we recommend halting the approval of any new coal thermal power plants and conducting a strategic review of those that are already approved but which do not have financing or power purchase agreements.

Six key policy and regulatory actions are needed to move toward a more financially, socially, and environmentally sustainable energy future.

The recommendations of MVEP 2.0 outlined above, which can help Vietnam move boldly toward a more financially, socially, and environmentally sustainable energy future, can be executed through the following six key actions:

- a. Continue to engage energy specialists from the private sector to assist in producing a PDP VIII with a strong prioritization on investment in domestic renewable energy, natural gas, battery storage and energy efficiency. With the exception of battery storage, which has only recently become an affordable option, this mirrors the objectives set forth in MVEP 1.0.
- b. Implement regulatory frameworks and incentives that encourage investment in behind-the-meter renewable energies, such as rooftop solar, battery storage, floating solar, and offshore wind projects, with simplified approval processes, while still maintaining safe power systems.
- c. Standardize the renewable energy PPA as an internationally bankable agreement and begin a pilot scheme of the Sleeved Direct Power Purchase Agreement (DPPA) in 2019.
- d. Publish a Roadmap to Retail Electricity Tariffs to 2025 that depicts the move toward market-based pricing, revising the number of Peak Tariff hours, and consider a differential Retail Tariff in different power regions and for disadvantaged households.
- e. Assess the urgent demands on the grid transmission system and the least-cost means of developing grid infrastructure with potential private sector support to unlock renewable energy production and distribution.
- f. Assess the cause and solutions for Vietnam's extremely high and growing energy intensity as compared to regional neighbors with similar and higher GDP per capita and prepare a public education campaign on reducing electricity waste.

These proposed actions will provide affordable, reliable, energy security outcomes:

- a. Enhanced energy security from natural gas, energy efficiency and renewable generation.
- b. Reduced power system costs relative to a coal-focused energy plan through the avoidance of imported coal and environment degradation costs.
- c. Increased private investment in renewable energy projects that removes the generation burden from EVN and shares it with many power consumers and power producers in a distributed generation model.
- d. “Socialized” electricity market that protects disadvantaged households with the least capacity to pay, but which is also financially sustainable for EVN and reflects a move to market-based pricing within the term of PDP VIII.
- e. Reduced greenhouse gas emissions and air pollution and the other costs relative to a coal-focused energy plan and alignment with Vietnam’s NDC commitments.
- f. Support SME and other private industry developing that reduces energy intensity, enables rooftop and increase energy efficiencies through public education and regulatory procedures.

II. Launch an “Attitudes to Electricity Survey”

Survey questions highlight what affected the decision to come to Vietnam, price sensitivity, desire for renewable energy, threats barriers and solutions to meeting their electricity needs, effect on investment decisions in Vietnam.

An online survey would be easiest and quickest, with well-managed, high volume communications through all the Chambers’ digital channels.

Goals:

- Produce a punchy and very short digital presentation of the survey result;
- Provide MPI, MOIT and Office of the Government with a large sample of consumers priorities, especially data on price sensitivity;
- Look for 1000 plus sample for maximum impact;
- Produce contents for meetings with City People’s Committee and local EVN power supply companies, especially in HCMC, Da Nang, and EVN Southern.

III. Some Working Group’s issues in details: *(Please see the Annex).*