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Vietnam: solar PPA is “unbankable”

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The Vietnamese government has released a new draft solar power purchase agreement (PPA). But, while the feed-in-tariff (FIT) seems acceptable, key clauses in the new PPA will need to be reformed to make it bankable, sources in Vietnam explain to *IJGlobal*.

Vietnam is officially aiming to raise the share of renewables from 7% in 2020 to more than 10% in 2030, according to a plan released in early 2016 by the Ministry of Industry and Trade (MOIT), which oversees the Department of Renewable Energy, and the United Nations Development Programme.

The priority will be in developing hydro: the aim is to raise hydro power generation capacity by more than 60%, from 17,000MW in 2016 to 27,800MW by 2030.

Still, MOIT does have ambitious targets for solar too. The ministry is aiming to raise solar power production from “a negligible level at present” to 850MW in 2020, 4,000MW by 2025 and 12,000MW by 2030 (equivalent to 3.3% of total generation capacity).

The policy to boost renewables, including plans to expand wind capacity from 140MW to 6,000MW by 2030, has tantalised investors – until they take a close look at the PPA.

What’s wrong with the PPA

MOIT published in May 2017 the first draft of a circular with what were supposed to be detailed guidelines for the new solar power policy, including a draft PPA template.

The new draft PPA reconfirmed the D2,086 ($0.12) per kWh feed-in-tariff but did not index the Vietnamese Dong denominated tariff to the consumer price index or the exchange rate “or any other provision to address inflation risks,” according to a Baker McKenzie note. In May 2017, the last statistics available, Vietnam’s consumer price index rose by 3.19% year-on-year after rising by nearly 4.5% between January and April.

The Dong has also been taking a hit and has fallen so far this year by more than 1% against the US dollar, according to State Bank of Vietnam data. Going forward, the Dong is expected to come “under pressure by the US Federal Reserve’s roadmap of raising interest rates” as well as unpredictable changes in the Chinese yuan and the Japanese yen, the National Financial Supervisory Commission warned recently, according to state media reports.

And if that were not enough to deter foreign investors and lenders, several clauses in the PPA still need to be amended to make it bankable, says Gavin Smith, Dragon Capital’s director of clean development and a member of the Vietnam Business Forum’s power and energy group.

The most critical amendments, according to Smith, would be:

- A termination clause that includes the international standard obligation on EVN, the state-owned utility and the only offtaker approved by MOIT, to repay the outstanding debt and associated costs
- An arbitration clause with international settlement, not local mediation with entities associated with EVN
- Guaranteed access to EVN’s grid and strict limits on curtailment due to technical problems

“Vietnam Business Forum concluded that the FIT is investable but the PPAs in their current form are unbankable. A failure to improve the terms of the PPAs will be the death of private sector-developed renewables in Vietnam,” White told *IJGlobal*.

Other potential investors agreed. A bankable PPA is “key,” Mainstream Renewable Power’s chief operating officer Andy Kinsella also told *IJGlobal*. Ireland-based Mainstream Renewable Power signed in November 2016 a $2.2 billion cooperation agreement with GE Energy Financial Services to develop 940MW of wind power in Vietnam but has yet to sign a PPA.

IJGlobal understands that MOIT has so far not shown any signs of being inclined to respond to Vietnam Business Forum’s general comments that were submitted formally to officials in mid-June.

Stuck with an unbankable PPA and an offtaker of questionable creditworthiness, investors may need to be patient. One ray of faint hope is that the World Bank is said to have been holding workshops with MOIT on plans to hold reverse auctions in 2020, after the existing FIT expires in June 2019.