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## Direct power purchase mechanism - a new entrant to be for Vietnam power sector

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Recently, the Electricity Regulatory Authority of Vietnam (ERAV) under the Ministry of Industry and Trade, Vietnam (MOIT) has released a draft circular (Draft Circular) guiding the implementation of the pilot program on direct power purchase agreement (DPPA) mechanism between renewable power generation companies and power consumers (DPPA Pilot Program). Compared to the previous draft DPPA decision released at the beginning of 2020, the new Draft Circular still follows the virtual DPPA model where the power consumer will indirectly purchase power from the power generation company through Vietnam wholesale electricity market (VWEM); while introduces several new requirements for the power generation companies and power consumers participating in the DPPA Pilot Program.

The Draft Circular is now under review and is expected to be promulgated in 2021.

### **Scale of the DPPA Pilot Program**

Under the Draft Circular, the DPPA Pilot Program will be piloted nationwide with a capacity scale ranging from 400 MW to 1,000 MW. If the total capacity of all qualified applications exceeds 1,000 MW, then the interested participants of the DPPA Pilot Program (including power generation companies and power consumers) will be selected on a first-come, first-served basis.

### **Selection of participants in the DPPA Pilot Program**

Power generation company and power consumer who wish to join the DPPA Pilot Program must jointly prepare and submit an application dossier as co-applicants and must satisfy several conditions.

As for power generation company, it must own a grid-connected solar or wind energy project having an installed capacity of more than 30 MW that has been included under the approved power development master plan. At the time of application for DPPA Pilot Program, it must already enter into a binding in-principle agreement with power consumer(s) and secure financial support for the power project from financial institutions or banks, evidenced by written documents. The in-principle agreement shall follow the template provided under Annex 1 of the Draft Circular, in which the parties shall agree on the main contents of DPPA (i.e., power supply commitments and strike price) to be signed between the parties after being selected into the DPPA Pilot Program. In addition, the power generation company must commit to put the relevant power plant into commercial operation and participate in VWEM no later than 270 working days after being selected for DPPA Pilot Program.

As for power consumer, it must purchase electricity for industrial manufacturing purposes at the voltage level of 22 kV or higher. Similar to power generation company, power consumer also needs to demonstrate that it already has a binding in-principle agreement with power generation company(ies). Besides, at time of

application for DPPA Pilot Program, power consumer is required to make commitment on renewable energy usage target and on the ratio of (i) annual renewable energy consumption supplied by the participating power generation company(ies) to (ii) total annual energy consumption supplied by power corporation (PC), which shall be at least 80% in the first three (3) years of participation in the DPPA Pilot Program.

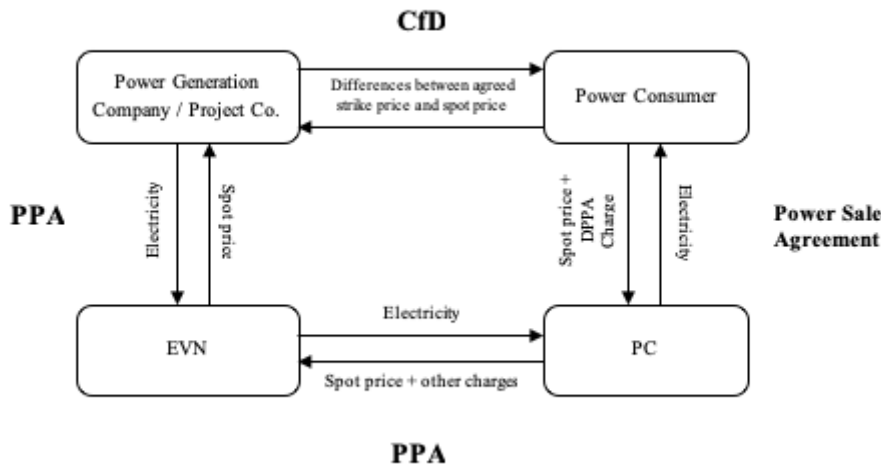
### **DPPA mechanism under the Draft DPPA Circular**

Under the proposed DPPA mechanism, the power generation company will not directly sell the generated electricity to the power consumer. Instead, through the VWEM and in accordance with the relevant power purchase agreement (PPA), the power generation company will sell all generated electricity to Vietnam Electricity (EVN), which in turn will sell such electricity to PC, and the power purchaser will purchase the power generation company's generated electricity from PC. The sale and purchase of electricity on the VWEM will be conducted at the spot market price in accordance with the MOIT's regulation on the operation of VWEM (i.e., current Circular No. 45/2018/TT-BCT dated 15th November 2018 of the MOIT, as amended). As for the purchase of electricity from PC, the power consumer must pay PC additional DPPA services fees (including transmission fees, distribution fees, market operation and dispatch charges, and auxiliary services fees) (collectively, DPPA Charge) which are calculated on each kWh.

The PPA between the power generation company and EVN shall be valid for 20 years from the date of its effectiveness and as of date mainly follow the model PPA applicable to solar and wind projects, except for certain necessary modifications related to the DPPA mechanism.

In addition, the power generation company and the power consumer will enter into a DPPA in form of Contract for Differences (CfD) with a term decided by the parties which shall be at least 10 years but not more than 20 years. The CfD mainly governs (i) the power supply commitments of the power generation company; and (ii) the strike price which the power consumer agrees to pay the power generation company. If the agreed strike price is higher than the spot market price, then the power consumer shall pay the power generation company the differences between the agreed strike price and the spot market price. By contrast, if the agreed strike price is lower than the spot market price, the power generation company shall pay the power consumer such differences.

With the above mechanism, the risk of spot market price fluctuations can be eliminated, which is indeed beneficial for the power generation company. It will be easier for the power generation company to make a good and effective financial forecast for the power project.



### Proposed timeline for DPPA Pilot Program

The DPPA Pilot Program is planned to be implemented for two (2) years i.e., from 2021 to 2023. However, when the DPPA Pilot Program will be launched will depend on the official promulgation of DPPA Circular by the MOIT after considering all opinions from relevant agencies and stakeholders. The timeline for implementation of the DPPA Pilot Program will tentatively be as follows:

- Within 15 working days after the DPPA Circular comes into effect, the MOIT will announce the DPPA Pilot Program;
- Within 15 working days after the announcement of the DPPA Pilot Program, the MOIT will open the online registration portal;
- Within 45 working days after the opening of the online registration portal, power generation companies and power consumers will submit application dossiers through the online registration portal;
- Within 45 working days after the closing of the online registration portal, the MOIT will conduct evaluation and selection process and announce the list of selected power generation companies and power consumers;
- Power generation companies will complete the construction of the power plant and put the power plant into commercial operation within 270 working days after being selected for the DPPA Pilot Program; and
- Based on the result of the DPPA Pilot Program which is evaluated during the period of one (1) year starting from the expiry of the 270-working-days period mentioned above, the MOIT will report to the Prime Minister for his consideration and decision on official application of the DPPA mechanism.

The launch of DPPA Pilot Program is expected to bring gigantic boost for renewable energy power sector in Vietnam. Although the Draft Circular has not been finalized, the outcome is much awaited.

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