

ELECTRICITY SECTOR REFORM IN VIETNAM

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Context - Electricity Sector

- Demand for electricity has grown at around 12-13% per year over past 20 years.
- Demand is driven by economic growth, social and demographic developments.
- Almost universal electricity access (98.4%).
- Vietnam Power Development Plan (PDP 7) for 2011-2020 and vision to 2030 was approved in July 2011.

Overview of Electricity Sector: Power supply structure

Unit: %

Supply Sources	2010	2020	2030
Hydro	38	19.6	9.3
Coal-fired	21	46.8	56.4
Gas-fired	34	24	14.4
Renewable energy	3.5	4.5	6
Nuclear	0	2.1	10.1
Imported electricity	3.5	3	3.8

Source: PDP 7 and Phu Gia Securities research

Main Pressures for Reform

- Increasing demand for electricity, despite PDP 7 target to reduce electricity/GDP elasticity from presently 2 to 1.5 in 2015 and 1 in 2020
- Large investment needs
- Limited transparency
- Currently power sector is dominated by SOEs (EVN, VINACOMIN, PVN etc...):
 - i) Promote competition vs. slow equitisation;
 - ii) Not attractive for private investment due to low electricity prices
- Energy security (changing energy composition with role of coal and nuclear energy increasing (Vietnam soon to become net importer of coal))

Electricity Sector Subsidies

- Mostly indirect subsidies:
 - regulated prices
 - cross-energy price subsidies
 - preferential loans, tax treatment, investment in infrastructure, etc.
- Losses at energy SOEs: circular debts
- Scale of subsidies is unclear:
 - Can estimate value of lifeline tariff, cheap coal inputs (coal sold to electricity producers at 50-60% of export prices)
 - But scale of EVN debt – and to what extent due to electricity sector losses – unclear

“Ladder” Retail Prices for households: Subsidies for the poor

No.	Electricity household consumption per month	Price (VND/kWh)
1	For the first 50 kWh (for poor and low-income households)	993
2	For 0– 100 kWh (for normal households)	1,284
3	For kWh 101 – 150	1,457
4	For kWh 151 – 200	1,843
5	For kWh 201 – 300	1,997
6	For kWh 301 – 400	2,137
7	For kWh 401 and over	2,192

Source: Circulars 17 /2012/TT-BCT of Ministry of Industry and Trade dated June 29, 2012 and effective since July 1, 2012

Electricity Sector Reform - Roadmap

- Electricity Law of 2004: Electricity price policy (Article No.29)
- Roadmap (Decision 26/2006/QD-TTg):
 - Phase I (2005-2014): establishment of competitive electricity generation market: competitive generation market operating only since 01 July 2012
 - Phase II (2015-2022): competitive wholesale market
 - Phase III (after 2022): competitive retail market

Achievements and Challenges

- Institutional reforms:
 - state management authority from EVN to ERAV/MoIT
 - monopoly position of EVN as wholesale buyer and retail seller: further restructuring is needed.
- Fear of inflation (macroeconomic instability, high inflation in last five years)
- ‘Winners and losers’

Price Reform

- Prime Ministerial Decision 21, 2009: electricity tariffs should move towards full recovery of costs and market-based pricing
- 7th National Power Development Plan: electricity price to “meet long run marginal cost by 2020” (estimated to be 8-9 US¢/kWh (current price 6¢/kWh))
- Price increases can now be more regular, automatic (Decision 24/2011/QD-TTg)
- Lifeline tariff 4.7¢/kWh is retained (for 50 kWh)
- Commercial and services pay the highest rate

Prices –Considerations for Reform

- Pricing reform is integral to sector reform
- Electricity pricing reform should be parallel to pricing reforms for other energy sources.
- Raising awareness and getting public consensus on the electricity pricing reform by providing reliable information on financial performance.
- Larger coverage of subsidised prices including both poor and peri-poor.

**Thank you very much
for your attention !**