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Vietnam Promises, Promises

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(A personal opinion item not necessarily reflecting the views of the membership)

Twice a month in Ho Chi Min City, electric power supply for an affluent residential area gets turned off for an hour due to power maintenance and always without warning.

However, power also gets cut off in many areas of the South simply due to power shortages.

In 2007, installed electric power in all of Vietnam was listed at 12,620MW – to support 85 million people and it's exponentially expanding industrial and commercial sectors. By comparison, Hong Kong's total installed capacity consumed by a population that is 9% of Vietnam's (7.5 million) is on an average of 11,000MW (including Kowloon and New Territories).

All over the globe, there is a direct correlation between the "good life" and available electric power. To achieve a level of prosperity and comfort comparable to North America and Western Europe, Vietnam's installed capacity must reach something in the area of 60,000MW, a plateau that might be possible in a decade or more.

Most likely "more" given the amazing abyss that the world economy is now diving in to a this writing.

A decade ago, Vietnam was being billed as the next Asian Tiger. Indications of a promised affluence sprouted. Eventually the usual cliché gucci-pucci's took space inside leading hotels and airports. By 2007 Vietnam was leading South East Asia in Private Equity deals, a trend that continued into the first half of 2008.

So, what's the problem? Why did Vietnam's stock market plummet in 2008? Why the 23% - 28% inflation rate? It appears to be a combination of corruption and ignored infrastructure, lack of adequate highways, shallow ports that cannot accommodate most container ships plus a plethora of other gripes that have kept serious big players like Wal-Mart and Carrefour, both of whom are all over China, from moving into Vietnam. In Pakistan's Karachi and Lahore, McDonald's are all over the place in a supposed "failed state" war-zone, none in Vietnam. Blessed with lots of oil, Vietnam amazingly has no refineries (It's first refinery is due to open later in this year).

Vietnam's Electricity Law of 2004 outlined future development running up to 2024. Electricity Vietnam (EVN), an SOE with revenues approaching three billion US dollars generates 78% of the countries power, controls up to 95% of distribution and an absolute 100% of transmission. EVN is under the direction of the Ministry of Industry and Trade, aka "MOIT". Both entities (MOIT and EVN) report directly to the Prime Minister whose office has final approval over power policies and development guidelines.

These guidelines include the establishment of a "competitive" power market with an evolution from a single buyer in 2009 into a competitive generation market followed by a "pilot" wholesale market in 2014 which will then grow in to a comprehensive nationwide wholesale competitive market by 2016 which would (according to plan) spawn a "pilot" retail market in 2022, achieving a full competitive retail market by 2024.

Along the way to this power paradise will be all sorts of accompanying phases and regulatory adjustments with retail prices to be market driven by 2010. The whole process will wrap-up with EVN being restructured (privatized?) into a shareholding company by 2024 or earlier.

Sounds great on paper, however, here are a few realities to consider.

The Prime Minister's "6th Power Development Master Plan" calls for 46,000MW of new power generation capacity by 2015 of which 31,000MW would be thermal power mostly from coal. This is not likely to happen in view of the current global credit crisis.

The conventional wisdom within the ruling circles of Vietnam's power sector has shown signs of accepting market realities. Recent statements by (MOIT) Industry and trade Minister Mr. Vu Huy Hoang: "Retail prices of electricity are below cost making it difficult for the industry to draw private investment which is a main cause for chronic power shortages and regular outages". He has also said that "the adjustment of power prices to a market oriented mechanism is inevitable." And to show he meant what he said (above), the Minister also advised that "Vietnam plans to gradually remove subsidies on electricity starting this year (2009) as an initial move towards deregulating the sector".

With just 22% of installed capacity, private sector generators are a growing and critical element in Vietnam's power development. The investor driven sector's rate of growth indicates that private power (IPP's) will pass SOE's by 2020. However, the Vietnam Government's approval process appears to some international industry leaders to be designed to "tease" private power developers / investors without any guarantee of agreeing on an acceptable "financeable" tariff or PPA, until such time as a PPA is actually executed.

Project developers are therefore confronted with having to start PPA negotiations after 2-3 years of high risk development work resulting in additional millions of dollars in out-of-pocket expenses.

All of this expensive "negotiation" limbo is played out against an atmosphere of uncertainty and unnecessary risk until the other shoe is finally dropped with an execution of the PPA.

Both ADB and IFC are active in Vietnam. Possibly because of IFC's involvement, the "Nghi Son 2" plant (1,200MW coal thermal) appears to be the only major power project that is currently subjected to a transparent public bidding process. This project is being watched by other investors as it is expected to be the benchmark for the next round of PPA's.

Most of the other power projects under development seem to be targets for an "institutional" feeding frenzy by various SOE's (EVN, PV Power, Lilama, Song Da, Vinacomin, etc.) and well positioned local groups such as ITACO.

The typical approach for foreign investors is to mitigate risk of bad faith while navigating Vietnam's development mine-fields by partnering with an SOE. EDF, Chevron, AES, One Energy and International Power are among the internationals that are following this course of action.

On the upside, the eventual establishment of a competitive electricity market will create many opportunities for consulting and engineering services, coal and gas fired developers, contractors and equipment suppliers.

Of Vietnam's 85 million people, three quarters are under 35. Their average age is 25. With relatively high levels of education and literacy they thirst for the good life.

The country's two major cities enjoy a per capita GDP of over US$1,000.00, the benchmark for becoming a modern consuming society. With relative political stability and an import / export volume running 160% of the GDP, Vietnam could eventually achieve its potential, but not without that vital 46,0000MW by 2015 demanded by it's Prime Minister.

IPPF Profile
The IPPF is a non-profit industry support organization mandated by its members to work toward best practices in the Power Generation industry. Our geographic focus includes all developing nations across the Asia / Pacific region.

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