

Hanoi struggles to satisfy growing thirst for power



By Amy Kazmin

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Authorities in Vietnam have been fretting for a month about the risk of power cuts interrupting broadcasts of the World Cup football matches in Germany. The week before the tournament started, many Hanoi residents had endured a three-day blackout amid sweltering heat and authorities feared that simmering public frustration might boil over if a crucial game was missed.

In the end, Vietnam's utilities kept the electricity flowing to the big cities and the feared urban disturbances did not materialise. But chronic power shortages still loom as a potential crisis for this Communist-ruled country, as authorities struggle to install electricity generating capacity fast enough to keep pace with demand.

The problem threatens to erode Vietnam's strong appeal as a hot new destination for foreign direct investment. "It is a critical moment," said Richard Spencer, a World Bank energy specialist in Hanoi. "Vietnam has got this huge growth in demand, it knows it has to meet that demand, and do it in a way that is different from the old ways."

Vietnam's hunger for power is growing an estimated 15 per cent a year, driven by an expanding industrial base and increasingly affluent households which are rapidly acquiring new electrical appliances such as air conditioners.

Yet spare capacity, especially at peak periods, is extremely low, so any technical problems at existing generators can trigger power cuts. Breakdowns at two major generating units have caused headaches in recent weeks, while last year, shortfalls in rain led to frequent urban blackouts, given Vietnam's reliance on hydropower for about 40 per cent of total electricity generating capacity.

"The system is running as hard as it can," said Mr Spencer. "Shortages are expected in 2006. Shortages are expected in 2007. But we don't know . . . how big they are going to be because we don't know how much it is going to rain next year."

The biggest worry is that Vietnam's power crunch will get even worse in years to come as the economy continues to expand at a robust 8 per cent a year. Vietnamese authorities have chalked out ambitious plans to double existing generating capacity by installing 12,000 megawatts by the end of 2010, a huge acceleration in the pace of power plant development compared with the past few years.

But any delay in implementing those plans will exacerbate shortages, while Hanoi's insistence on holding down consumer power prices could make it tough to raise the estimated \$3bn a year these investments will require.

"It's a real cliff-hanger," Mr Spencer said. "We are all sitting here in our chairs, gripping the arms, till our knuckles turn white."

About half of Vietnam's new capacity over the next five years is slated to be installed by state-owned Electricity of Vietnam (EVN), which has said it may seek \$2.3bn on the global bond market for some new projects. Other state energy companies, such as Petro-Vietnam, and Vincoal, the state coal company, are also supposed to contribute, sometimes in joint ventures with EVN.

Hanoi is also looking to potential investment from foreign power companies, some of which are exploring opportunities in Vietnam. But Tony Foster, a Hanoi-based partner at Freshfields, warns prospective investors may face the same difficulties in dealing with state agencies that has thwarted past efforts to develop independent power projects.

In the 1990s, numerous prospective foreign power producers abandoned efforts to build power plants in

Vietnam after finding it difficult to conclude deals both with the state energy firms for fuel supply, and with EVN, the monopoly power buyer and distributor, on power purchase.

Part of the problem, Mr Foster said, was a broad Vietnamese law, still in effect, that can subject state officials to criminal charges for allegedly selling something too cheaply, or for paying too much for a purchase. The law leads to "very painful" negotiations, with officials reluctant to take responsibility for any final decision, most of which are eventually referred to the prime minister's office for sanction.

"You negotiate till the foreigner walks away, then you ask the foreigner to come back, but by that time many are so fed up they don't want anything to do with it," said Mr Foster, who was involved in several such negotiations.

While two foreign power projects did finally get up and running, in part because BP was indirectly supplying the gas needed to fuel them, fresh power market entrants will face a long road.

"I don't think enough has changed to make one more optimistic that things will move much faster than in the past," Mr Foster said. "The difficulty is getting all government entities and state-owned companies to agree to the same thing on the same day."

The danger is that if Vietnam's ministries and state companies fail to work together as a team, authorities will be facing even greater worries when the World Cup tournament rolls around next time.

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