

## TAIWAN FEED-IN TARIFF 2019: IS IT ENOUGH?

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### THE LEAD UP TO THE DECISION OF 30 JANUARY 2019

The Ministry of Economic Affairs of Taiwan (“MOEA”) announced Taiwan’s new feed-in tariff (“FiT”) regime for renewable power generation projects in January 2019. This announcement put an end to months of public speculation and lobbying in connection with the 2019 FiT for offshore wind projects which had dominated the headlines after the MOEA released its 2019 offshore wind FiT proposal in November 2018.

The Taiwanese FiT regime generally provides for a fixed tariff to be paid in respect of renewable power projects for a period of 20 years by way of a power purchase agreement (“PPA”) between the relevant power producer and Taiwan Power Company (台電) (“Taipower”) as off taker. Taipower is a state owned company and has a monopoly over the country’s transmission and distribution of power.

The 2018 rate was set at NTD 5.8498 per kw/h for the full 20 year period or (at the option of the power producer) a tiered rate of NTD7.1177 for the first 10 years with lower FiT of NTD 3.5685 per kw/h for the second 10 year period.

The initial 2019 FiT proposals announced by the MOEA in November 2018 – if implemented – would have (i) cut the FiT for offshore wind projects by approximately 12.7%; and (ii) impose a production cap of 3,600 on annual full-load hours before the FiT is reduced to NTD 1.940 per kw/h. The initial proposal also appeared to do away with the option to choose a tiered FiT.

As the 2018 offshore wind FiT applied only to PPAs entered into with Taipower on or before 2 Jan 2019, a number of developers who were successful in obtaining grid allocation for offshore wind projects in 2018 but were unable to execute PPAs by the above deadline (including Ørsted who was unable to obtain establishment permits for its 900 MW Changhua 1 and 2a projects – a condition for executing the PPA – by that date) were affected.

The FiT situation at the end of 2018 was further complicated by (i) criticisms levelled by the Taiwanese Government Control Yuan – the investigatory branch of the Taiwan government that monitors other government departments – that the 2018 FiT was set too high and (ii) the results of Taiwan’s provincial level municipal elections.

These elections were held on 24 November 2018 across all 22 local municipalities and saw the existing Taiwan Democratic Progressive Party (DPP) government lose seven municipal seats to the opposition Kuomintang party, including the municipalities of Changhua and Yunlin, where the bulk of the offshore wind projects are located.

A multi-question referendum was also held on the same ballot including one on whether the current provisions of the Taiwanese Electricity Business Act that provide for the phasing out of Taiwan's nuclear power plants by 2025 ("Section 95") should be revoked. The referendum to repeal Section 95 passed with approximately 59.5% of the vote and, in response, Premier William Lai announced that the Executive Yuan of Taiwan (the executive branch of the Taiwanese government) would start the legal procedures required to retract Section 95.

The results of the referendum of Section 95 were initially seen by some as likely to encourage the reduction of the FiT for 2019. After all, if a nuclear alternative were available, the need to replace the power generated by the nuclear power plants with renewable power generation would be obviated. Of course, a more in-depth look at the practical viability of maintaining (and in at least one case restarting) Taiwan's existing aging nuclear power plants would raise doubts about this view.

## THE 2019 FEED-IN TARIFF

The eventual changes to the 2019 FiT were less severe than initially proposed. It was reported that the MOEA took into account concerns raised by offshore wind developers that the changes initially proposed would affect the ongoing viability of existing offshore wind projects, particularly given the additional costs placed on developers to (a) fulfil the local Taiwanese supply chain requirements and (b) fund grid upgrading costs, initial surveys, project evaluations and incentives to the local fishing community.

With regards to offshore wind projects, the 2019 FiT was eventually set at NTD 5.5160 per kw/h for the full 20 years period (or, if elected by the developer, NTD 6.2795 per kw/h for first 10 years, and NTD 4.1422 per kw/h for the second 10 years).

The above represents (i) an approximate 5.71% reduction in the FiT (if a single FiT was elected for the full 20 years) or (ii) a 11.78% drop for the FiT for the first 10 years and a 16.08% increase in the FiT for the second 10 years (if a tiered FiT was adopted).

The 2019 FiT also introduced the following tiered production cap for the offshore wind projects:

- 100% of feed-in tariff for production up to 4,200 annual full-load hours;
- 75% of feed-in tariff for production from 4,200 to 4,500 annual full-load hours; and
- 50% of feed-in tariff production above 4,500 annual full-load

With regards to solar projects, the 2019 FiT retained the previous year's approach of having different solar FiTs for rooftop (which is further subdivided by reference to the installed capacity of the project), ground mounted and floating solar projects. The 2019 FiT for solar projects was set between NTD 5.7983 per kw/h and NTD 4.0379 per kw/h. Except for small rooftop solar projects – where the FiT increased by 0.85% in an effort to encourage roof top solar development – the 2019 solar FiT for the first half of 2019 generally saw a drop of between 0.27% to 4.31% compared to the equivalent 2018 FiT.

A table summarising the 2019 FiT and comparing them against the equivalent 2018 FiT levels is attached to this briefing note (PDF).

"THE CURRENT CHANGES MAY LEAD INVESTORS, DEVELOPERS AND THEIR FINANCIERS TO REVISIT THEIR PROJECT ASSUMPTIONS AND FINANCIAL MODELS."

## BUT IS IT ENOUGH?

The 2019 FiT announcement occurred recently and the long term impact of it on Taiwan's (i) renewable power sector and (ii) wider ambitions to develop as a regional hub for the offshore wind supply chain remain to be seen. The current changes may lead investors, developers and their financiers to revisit their project assumptions and financial models. However, the 2019 FiT, and the process leading up to its announcement, highlights the importance of greater stakeholder engagement by developers and financiers alike with both central Taiwanese government agencies and local municipal governments. From our experience working on solar and wind projects in Taiwan, the value of ongoing dialogue and understanding on the part of

all parties certainly cannot be discounted.

This article was authored by Shawn Er, a former partner in our Singapore office.

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