



LEGISLATIVE UPDATE: MONGOLIA AMENDS ITS RENEWABLE ENERGY LAW

The Parliament of Mongolia approved the amendments to the Renewable Energy Law (the “**Amendments**”) on 6 June 2019. The Amendments have now been published in the State Gazette, bringing it into force.

1. INTRODUCTION

The Parliament of Mongolia adopted the Renewable Energy Law in 11 January 2007 to promote its renewable energy sector, environmental sustainability and green development. There have been 6 minor amendments to the Renewable Energy Law, including legislation on feed-in-tariffs in 2015. Over the past four years, Mongolia’s renewable energy sector has shown significant growth reaching 16.5 percent of total installed capacity in 2018 as compared to only 6.9 percent of total installed capacity in 2014.

Quick Facts of Energy Sector - 2018	
Total installed capacity (MW)	1309.5
Installed capacity of Renewable Energy (MW)	216.4
Breakdown:	
Wind Power Plant (MW)	155 (72%)
Solar Power Plant (MW)	35 (16%)
Hydro Power Plant (MW)	25.4 (12%)
Share of Renewable Energy (% of Total installed capacity)	16.5%
Electricity generation (kWh)	6624.8 million (+8.8% YoY)
Electricity generation by Renewable Energy (kWh)	468.8 million (+81.3% YoY)
Share of Renewable Energy (% of an electricity generation)	7.1%
Electricity import (kWh)	1683.6 million (+10.6% YoY)
Foreign Direct Investment in Renewable Energy (US\$)	463.9 million (2017)
Access to electricity (% of population)	85.9 (2017)
Feed-in-Tariff (MNT)	19.88 (2019)

Renewable Energy Map



Source: ERC, World Bank

In the State Energy Policy 2015-2030, Mongolia aims to meet the country’s continuously growing energy demand and then become an energy exporting country from 2024–2030 by utilising abundant solar, wind resources available in the Gobi Desert region. Further, with the strategic goal of scaling up energy generation by using renewable energy resources, reducing adverse environmental impacts of conventional power systems and greenhouse gas emissions, Mongolia aims to increase the share of renewables in total installed capacity to 20% in 2020 and 30% in 2030.

2. KEY FEATURES

The Amendments contain several important points, including (i) changes to the tariffs generated by solar and wind power resources, (ii) the introduction of competitive procurement for renewable energy projects, and (iii) the introduction of project implementation guarantees.

3. CHANGES TO TARIFFS

Currently, tariffs for renewable energy sources are significantly higher than tariffs for conventional sources. These differences in purchasing electricity from conventional sources and renewable energy sources are passed on to and paid by consumers as feed-in-tariffs as reflected in the Renewable Energy Law. In addition, the cost of electricity remains heavily subsidized by the government. In order to keep feed-in-tariffs in an affordable range, and taking into account the decreasing cost of renewable energy technologies worldwide, legislators proposed tariff reductions for electricity generated by solar and wind power resources.

Under the Amendments, the tariff for electricity generated by solar power resources must be set

at a maximum US\$ 0.12 per kW while the tariff for electricity generated by wind power resources must be set at a maximum US\$ 0.085 per kW. No changes have been made to hydropower tariffs. The table below shows comparisons between new and previous tariffs:

Renewable energy types	Current tariffs (per kW)	Previous tariffs (per kW)
Wind power	maximum US\$ 0.085	US\$0.08 - 0.095
Solar power	maximum US\$ 0.12	US\$0.15 - 0.18
Hydropower	US\$ 0.045 - 0.06	US\$0.045- 0.06

4. COMPETITIVE PROCUREMENT OF ENERGY PROJECTS

In order to ensure the state’s ability to identify energy demand based on its financial capabilities, as buyer, and to purchase the most affordable renewable energy that meets quality requirements, lawmakers set out in the Amendments “competitive procurement of projects”, effectively a renewable energy auction. A comparable regime is in place in many countries worldwide, including Germany, Brazil, Mexico, Chile and India, when procuring new renewable energy capacity.

Under the Amendments, “competitive procurement of projects” refers to competitive procurement for construction of renewable energy plants to be connected to the central energy grid, by taking into consideration relevant technical conditions and capabilities, and electricity tariff offers made by potential project developers.

Accordingly, the pricing proposals of project developers will be a factor in the procurement process.

The following principles should be followed when organising a competitive tender:

- (a) to determine in advance the location of the project, the type of energy resources, the capacity and annual production plan in accordance with the state policy on renewable energy, taking into account the stable operation of the central energy grid;
- (b) to ensure competition based on technologies to be used in the project and tariff offers; and
- (c) to ensure transparent, fair and equal competition.

The Ministry of Energy is responsible for adopting regulations that will provide more detailed information on the tender process. This regulation

is not yet adopted but is expected to be developed in the near future.

5. PROJECT IMPLEMENTATION GUARANTEE

In recent years, several project developers that obtained a licence to construct a renewable energy plant, received a tariff approval and concluded a power purchase agreement have been unable to complete construction of renewable energy plants in the projected timeframe.

In order to incentivize timely project completion, the Amendments now require a project implementation guarantee from the project developer.

The project implementation guarantee refers to a bank guarantee or cash sum placed in a Mongolian commercial bank to ensure implementation of the project by the project developer. The project implementation guarantee must also be reflected in any power purchase agreement under the Amendments.

The Amendments are silent on the level of project implementation guarantees, but it is expected that the guarantee will set between US\$ 50–75 per kW depending on the installed capacity of the renewable energy plant.

If you would like to further information on any aspect of this note, please contact a person mentioned below or the person with whom you usually deal.

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