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A Break in the Clouds: Regulating Cambodian Solar Energy

As a rapidly developing country, there is an ever-growing demand for electricity in Cambodia. Unfortunately, electricity in Cambodia is still relatively costly in comparison to its regional neighbors, which affects the competitiveness of companies operating in the country. However, many companies have noticed that Cambodia's climate is well-suited for solar energy and are moving toward the use of solar energy to satisfy their demand for sustainable electricity at lower prices.

The Cambodian government has also recognized the benefits and has recently adopted its first regulation on solar energy. In addition, the Cambodian government has legislation in the pipeline that provides incentives to companies investing in solar energy, which further reflects the government's commitment to sustainable energy.

Regulatory Developments

The Cambodian government has been working for several years on a draft Environment and Natural Resources Code (Environmental Code), which will hopefully be adopted in the near future. The Environmental Code is a comprehensive piece of legislation that addresses various issues, such as environmental impact assessments, the use and protection of natural resources, and the use of sustainable energy.

In addition, in early 2018, the Electricity Authority of Cambodia (EAC) adopted the Regulations on the General Conditions for Connecting Solar PV Generating Sources to the Electricity Supply System of National Grid or to the Electrical System of a Consumer Connected to the Electricity Supply System of National Grid (Solar Regulation).

The Draft Environment and Natural Resources Code

We expect that once the Environmental Code is adopted, it will have a major impact on Cambodia's regulatory framework, especially for sustainable energy. The draft Environmental Code currently provides rights and incentives that are very promising to the solar energy sector, including:

- ▶ a right to connect to the national grid for companies and consumers using solar energy;
- ▶ a requirement to develop regulations on net metering;
- ▶ the establishment of a one-year pilot for a feed-in-tariff system, in which the government offers a fixed rate for solar energy fed into the grid; and
- ▶ up to a 20% reduction in profit taxes for any company generating at least 20% of its own energy through sustainable sources.

The Solar Regulation

The Solar Regulation is not as forward-thinking as the

Environmental Code, and does not provide similar incentives for solar energy. Instead, the Solar Regulation provides a regulatory framework where previous regulation was absent or unclear, and is therefore a welcome development. The Solar Regulation addresses two types of solar systems, namely solar system projects that are a source to the national grid, and solar systems of consumers that are connected to the grid, but do not supply to the grid.

Providing Electricity to the National Grid

A solar system project must be included in the Power Development Master Plan of the Ministry of Mines and Energy before it can be connected to the grid (Article 3). If the project is not included in the Master Plan, the project must be evaluated by the Ministry of Mines and Energy, and Electricité du Cambodge (EDC), which operates the national grid. If approved, the project will be included in the Master Plan.

The project's investment and business conditions are subject to a project implementation agreement, but the regulation does not address this agreement in further detail. Lastly, the project must meet the technical standards and safety conditions in the Solar Regulation.

Any solar energy supplied to the national grid must be sold to EDC under a power purchase agreement (Article 4).

Consumers of Solar Power

Any legal person may operate a solar system for their own consumption if the system is not connected to the national grid (Article 5). In such a case, the person will not be bound by the technical standards and safety conditions in the Solar Regulation.

However, if a consumer wishes to operate a solar system while connected to the national grid, the consumer must be categorized as either a "big" or "bulk" consumer (Article 5). The thresholds for big and bulk consumers are set out in the Regulations on General Conditions of Supply of Electricity in the Kingdom of Cambodia, 2003:

- ▶ Big consumers are those whose power is supplied at above 380 volts up to 22,000 volts
- ▶ Bulk consumers are those whose power is supplied at above 22,000 volts

Subject to the approval of EDC, big and bulk consumers may connect their solar systems to the national grid; however, any solar energy generated can only be used for their own consumption. Feeding solar energy into the national grid as a consumer is only allowed in exceptional cases and is subject to written agreement from EDC and the approval of the EAC.

Concluding Remarks

Unfortunately, the Solar Regulation fails to incorporate the incentives of the draft Environmental Code and only allows large-scale solar initiatives to supply power to the grid in exceptional cases. However, the Solar Regulation clarifies that solar initiatives not connected to the grid are not regulated under the Solar Regulation, which provides individuals and companies freedom to use solar energy.

Although the Solar Regulation fails to address a number of key issues for the development of the solar industry, such as feed-in tariffs and net metering, it does provide clarity as to the regulatory framework for large-scale initiatives, and will hopefully spur investment in solar projects in Cambodia.

It is expected that the adoption of the Environmental Code and its implementing regulations will provide stronger incentives for investment in solar energy, including for smaller-scale projects. 🌞