



GRATA
INTERNATIONAL

REGULATION OF RENEWABLE ENERGY IN MONGOLIA

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Introduction

Renewables Readiness Assessment of Mongolia prepared jointly by the International Renewable Energy Agency (IRENA) and the Ministry of Energy of Mongolia, finds that electricity output from the country's solar and wind resources alone could reach 15,000 terawatt-hours (TWh) per year, the equivalent of more than 18 million tonnes of avoided coal.

The National Renewable Energy Center (NREC) estimates that Mongolia's total renewable energy potential is 2.6 terawatts (TW), a potentially huge resource base for electricity production and export. In the decades ahead, these could draw on the vast solar and wind potential of Mongolia's Gobi Desert. With this resource, it is possible to fully satisfy the domestic energy consumption, but also meet the energy demand of the Northeast Asian region if the energy transmission infrastructure is optimally resolved.

Wind Power



- Mongolia has potential to become one of the major wind power producers.
- 10% of the total land area can be classified as excellent for utility scale applications, Power density 40–600W/m², the resource could potentially supply over 1100 GW of installed capacity. Wind power classification of Good-to-Excellent wind power resources are equivalent to 1,113,300 MW of wind electric.

Solar Energy

- About 270-300 sunny days per year with an average sunlight duration of 2,250-3,300 hours are available in most regions of Mongolia. Annual average amount of solar energy is 1,400 kWh/ m² with solar intensity of 4.3-4.7 kWh/m² per day.



Hydro Power



- There are 3800 small and big streams and rivers in our country, which could support up to 6417.7 MW of power and deliver 56.2 billion kWh of electric energy annually.



In spite of vast renewable energy potential, Mongolia depends on 93% of total electricity production from coal fired thermal power plants. Coal has also been used as the primary source for heating. As a result, the energy sector becomes the major contributor to large greenhouse gas emissions and serious air pollution in the country.

There are 12 stations producing renewable energy in Mongolia, and as of 2018, 7.3% of the total energy or 413.8 million kWh was produced by hydro and wind stations.

Mongolia imports more than 20% of its total electricity needs from its neighbors China and Russia in order to meet the growing demand for electricity and manage peak loads in the energy sector. The energy imported from China is mainly used for mining operations or the use of the Oyutolgoi mine.

But a policy currently in front of Parliament could boost the share of renewables in the energy mix to 30 per cent by 2030. The Parliament of Mongolia adopted the Renewable Energy Law on January 11th, 2007 to promote the renewable energy sector, environmental sustainability and green development.

The Amendment to the Renewable Energy Law on 2015 introduced several important changes including changes to the tariff cap for electricity generation and supply to the grid from wind and solar projects connected to the grid, procurement procedure for renewable energy projects and project implementation guarantees.



This amendment enables Mongolia to provide energy security and reliability, improve energy efficiency, pursue public-private partnerships and create a market-oriented framework for the sector.

Competitive Selection Of Energy Projects

In Renewable Energy Building Project Appraisal Procedure, relations arising in connection with the selection of renewable energy generator construction projects (project) will be regulated in accordance with the principles established by the Law on Renewable Energy.

This procedure applies to a legal entity that will build a solar, wind turbines, hydropower plants, hydroelectric power plants, energy storage and other renewable energy sources with an installed capacity of more than 1 Megawatt (MW) connected to the power transmission network with its own funds.



Under the Amendments, competitive selection of energy projects refers to competitive selection for construction of renewable energy plants to be connected to the central energy grid based on 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. **Project selection has the following stages:**

- ① preparatory stage of project selection;
- ② stage of announcing the general conditions of project selection;
- ③ stage of preliminary assessment of project selection;
- ④ project selection stage;
- ⑤ the stage of negotiating and concluding a contract with the selected participant.

If the project tender participant disagrees with the preliminary evaluation or the final selection decision, he/she shall submit a complaint to the court within 30 days after receiving the decision.

Obtaining a License

Based on the application submitted by the concerned legal entity, the Energy Regulatory Commission and the Regulatory Board of the Aimag or the Regulatory Board grants of the Capital city will issue two distinct types of special permits for the construction and generation of renewable energy generators. A legal entity applying for a license must include the specified documents relevant to the activities it intends to undertake with its application:



1. Submission of either a copy of the land possession certificate issued for the purpose of locating the renewable energy power source (the authorized recipient must verify the copy's authenticity with the original and annotate its validity at no cost), or a notarized copy if sent by mail;



2. Provision of a plan for reprocessing and/or disposing of accumulators that have reached the end of their useful life and are utilized in a renewable energy power source;

3. Conducting studies on soil, flora, geological and hydro-geological conditions, geographical location, land surface, weather, air pressure, wind regime, and water, specifically for projects involving the construction of facilities utilizing hydro sources;



4. Furnishing a statement issued by a competent authority confirming the compliance of equipment, technology, and facilities of a renewable energy power source with both national and international standards;

5. Feasibility analysis;

6. Examination of energy resources intended for energy generation;



7. Characteristics such as type, quantity, and quality criteria of the energy to be generated, transmitted, distributed, or supplied;
8. Principal technical specifications for the equipment designated for operations;
9. Extent of services, property boundaries, and the equilibrium of energy generation, supply, and consumption;
10. Assessment of environmental impact;
11. Plan of action for environmental conservation;
12. Statements of the financial capacity and resources of the legal entities;
13. Commencement date of operations, initial investment amount, and funding sources;
14. Overview of the skills and experience possessed by technical personnel.

The Authorized body will scrutinize the completeness of application documents within two working days upon receiving the permit application and will undertake the following actions:

1. Initiate a verification process if the application documents are found to be complete and satisfactory.
2. Inform the applicant if the application and accompanying documents do not meet the requirements, or if the documents are incomplete, and advise the applicant to provide the necessary additional documents.
3. Forward the application to the relevant organization based on jurisdiction.

Within 10 working days, the authorized body will assess whether the permit applicant satisfies the conditions and requirements outlined in the law. Following the conclusion of this process, a decision on the issuance or denial of the permit will be made within the subsequent five working days.



The term of a license for energy generation and transmission ranges from 5 to 25 years, a license for the construction of energy facilities is valid for up to 5 years, and other relevant licenses have a term of up to 10 years. If the licensor determines that the license holder has consistently met the conditions and requirements of the license and possesses the conditions and capabilities to sustain normal operations in accordance with technical and technological requirements, the licensor may extend the license for up to 25 years.



Within 30 days preceding the expiration of the permit period, the designated individual is required to submit an application for extension, together with the documents prepared in accordance with the conditions and requirements set forth in the law, to the authorized entity. The authorized entity will conduct an assessment within 5 business days to determine if the permit holder satisfies the conditions and requirements stipulated by the law.

Tariff Cap for Electricity Generation

The Energy Regulatory Commission establishes prices and tariffs for energy produced and supplied by renewable energy sources connected to the transmission network within the following limits:

- Up to USD 0.085 for 1 kWh of electricity generated and delivered by wind power sources.
- USD 0.045-0.06 per kWh of electricity generated and delivered by a hydropower plant with a capacity of less than 5000 kW.
- Up to USD 0.12 for 1 kWh of electricity generated and delivered by solar power sources.

The difference in the price of electricity power produced by the power sources connected to the transmission network shall be compensated by the supporting tariff.

The Energy Regulatory Commission, the Regulatory Boards of Aimags, and the Capital city determines prices and tariffs of electricity power generated by the consumer's distributed renewable energy power source and delivered to a distribution grid based on following conditions:

Geographical location, infrastructure development, and socio-economic development in the particular region.

Prices and tariffs should correspond to the purchasing ability of consumers.

The Energy Regulatory Commission shall set prices for energy generated and delivered by renewable energy power sources using geothermal energy, biomass, and renewable energy power sources that are not connected to the transmission network by considering the social impacts of such prices and tariffs. The price and tariff limits renewable energy sources connected to the transmission network shall be set in accordance with the payback period of the investment.

Tax Relief

Investment support for investors consists of tax and non-tax support as stipulated in the Law on Investment.



Tax incentives shall be provided to investors in the following types:



- exemption from taxes;
- tax reduction;
- to calculate the depreciation expense to be deducted from the taxable income under the accelerated method;
- to calculate the loss to be deducted from the taxable income by a loss carryforward;
- to deduct the employee training expense from the taxable income.

In the case of investment project of constructing a power plant, imported machinery and equipment may be exempted from customs duty during the period of construction work, and value added tax may be imposed at the rate and amount up to "0".

Non-tax investment support can be provided to investors in the following forms:

- To possess and use the land on the basis of a contract for up to 60 years, and to extend that period once up to 40 years according to the original terms of the contract;
- to provide support to investors operating in free zones, industrial and technology parks, and to provide simplified procedures for registration and inspection;
- to support the implementation of construction projects in the infrastructure, industry, science, and education sectors, to increase the number and amount of labor and specialists from abroad, to exempt them from workplace fees, and to grant relevant permits in a simplified manner;
- to support the financing of innovation projects and issue guarantees for financing the production of innovative products aimed at export;
- Issuance of multiple-entry visas and permanent residence permits to foreign investors who have invested in Mongolia and their families in accordance with relevant laws and regulations;
- other support provided by law.

And the rate and amount of taxes payable by legal entities implementing investment projects shall be stabilized with the possession of Stabilization Certificate. The Stabilization Certificate shall be granted to a legal entity implementing the investment project independently or to a parent company of a legal entity implementing the investment project with two or more affiliated legal entities. With the Stabilization Certificate, the rates and amounts of taxes and fees mentioned below will be stabilized during the validity period of the certificate:



- 1) Corporate income tax;
 - 2) Customs duty;
 - 3) Value added tax;
 - 4) Mineral resource royalties.
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Law on Corporate income tax states that following income shall be relieved from tax (Article 22.5):

- tax on income from the sale of eco-friendly techniques and equipment for the efficient use of natural resources, reduction of environmental pollution and waste;
- tax equal to 50 percent on the investment income earned from a free zone by a legal entity that invested 500 thousand US Dollars or more for the construction of infrastructure like energy and heat sources, power networks, clean water supply, sewerage, road, railway, airport and communication networks in the free zone;
- tax equal to 50 percent on the investment income earned from a free zone by a legal entity that invested 300 thousand US Dollars or more for the construction of warehouses, loading facilities, hotels, tourism complexes, and plants producing import substitute and export products in the free zone;
- 90 percent of the income tax shall be reduced from the production of main and auxiliary equipment for sources with a capacity of more than 5 megawatts of electricity or 1.5 megawatts of thermal energy.

The tax paid by a legal entity established in Mongolia in a foreign country shall be deducted from the tax payable for the tax year. The amount of tax to be deducted shall be calculated according to the following criteria as stated in the Law on Corporate Income Tax:

- the amount of tax payable by the official taxpayer for the tax year;
- the amount of tax to be paid in the event that it is imposed according to the tax law of Mongolia on the taxable income paid to a foreign country (shall be calculated separately for each foreign country paid by the taxpayer in the tax year).

When confirming the amount of tax to be deducted in accordance with Law on Corporate Income Tax, the tax return filed with the competent authority of the foreign country, the official letter evidencing the imposition and payment of the tax, evidence and reference issued by the authority confirming the payment of the tax shall be based.

Ongoing projects in Mongolia [1]

The Government of Mongolia received grant from the Strategic Climate Fund, Japan Fund for the Joint Crediting Mechanism and loan from the Asian Development Bank to implement the Upscaling Renewable Energy Sector Project. The Project will develop 41.0 megawatts (MW) of solar, wind and shallow-ground renewable energy (RE) in remote areas of the Western and Altai Uliastai Energy Systems. The Project will be implemented over two phases, with the first phase from 2019-2022 and the second from 2022-2024.

[1] ADB Environmental Monitoring Report: Upscaling Renewable Energy Sector Project in Mongolia – August 2023
https://www.adb.org/sites/default/files/project-documents/50088/50088-002-emr-en_4.pdf



The core subprojects are:

- 1) **Uliastai subproject:** Uliastai 5MW solar power plant and 3.6MW*h battery energy storage system operation has begun on October 2022. Currently the contractor has not submitted the 2023 Operation phase EMP.
 - 2) **Govi Altai subproject:** The Yesonbulag 10MW Solar power plant subproject contract has been awarded to MCS International LLC. The construction commencement date was established, on 2nd quarter of 2023. All mitigation measures were implemented by August 3rd, 2023.
 - 3) **Altai Soum subproject:** An off-grid 0.5 MW hybrid solar and BESS facility in Altai soum, has been in operation since July 2022. The contractor has submitted the operation phase EMP implementation phase report as per operation phase EMP. All mitigation measures are complied. On site review is scheduled in October 2023.
 - 4) **Khovd subproject:** A 135 kW shallow-ground heat pump (SGHP) at Kindergarten 1 in Khovd City, the construction phase of the subproject is completed and operation is managed by JV of Brosk LLC and Nar Energy Silicon Metal (NESM) LLC.
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Source

1. Law of Mongolia on Renewable Energy (2007)
2. Law of Mongolia on Energy Conservation (2015)
3. Law of Mongolia on Investment (2013)
4. Law of Mongolia on Business Entity/Corporate Income (2019)
5. Law of Mongolia on Free Zone (2015)
6. Renewable Energy Building Project Appraisal Procedure (2020)
7. National Renewable Energy Program /2005-2020/
8. ADB Environmental Monitoring Report: Upscaling Renewable Energy Sector Project in Mongolia – August 2023

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countries of presence



> 31

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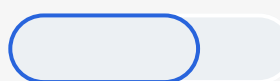
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professionals



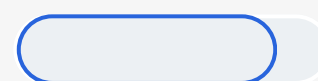
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practice areas



7700+

clients



15 000+

projects



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