



Power Purchase Agreements in Africa, Middle East and Asia

Many countries in Africa, the Middle East and Asia are struggling with the issue of how to increase their future generation capacity. Nowadays, with the strong rise of renewable projects this is an even more pressing issue. The way forward seems to be attracting private investment. To achieve this Power Purchase Agreements (PPAs) between Independent Power Producers (IPPs) and in many cases the state owned utilities are crucial for the success of such investments. However, the actual story is not as straight forward as it seems, as for successful IPP projects cost reflective electricity tariffs and a well-established regulatory and legislative framework will be key.

First of all this would require the political will to achieve such an environment. The government will have to make decisions about the capacity building of the regulator, how to deal with the monopoly powers of the national incumbent that acts as a so-called Single Buyer, there should be an energy policy in place to at least cater for equal rights or a level playing field for the IPPs towards the incumbent company. On top of that considerations should be made whether to establish an Independent System Operator and probably even a Market Operator, yes or no.

In several emerging countries the capacity of the regulators definitely need to be extended. Many of them are relatively young and lack the human resources to deal with their new tasks. What most of them are lacking right now is the in-house expertise to deal with the teams of experts send in by the international project developers and finance community.

Experience has taught us that there is a huge need among regulators to educate their people, most of them new hires, to provide them with the necessary knowledge about how to negotiate and review a sound PPA. What are the standard provisions in a PPA contract, what issues need to be addressed on a case by case basis, what are the risks and what party should bear these and how could the risks be mitigated?

However, the absolute crucial factor in any PPA is the tariff. To make IPP projects interesting to investors, the tariffs should be cost reflective. However tariffs are very often part of a political game; the politicians want to keep these low to not alienate their voters.

This puts pressure on the role of the regulator: will the regulator be independent or do they have to follow the orders from the government that will also have a political agenda.

These are only a few of the issues we deal with during our extensive 4 day (in-house or general) training courses about all the issues related to PPAs. Besides we have worked for several regulators in Europe as a consultant.

For more information please contact

Kasper Walet

Tel: +31653818191