



# Creating an Enabling Environment for Implementation of Power Sector Projects in the SADC Region

by

**Siseho C. Simasiku**

**RERA Executive Committee Member & Chief Executive  
Officer, Electricity Control Board (ECB) of Namibia**

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# Presentation Outline

- ❑ **About RERA**
- ❑ **What are success factors for ESI investments?**
- ❑ **Status of SADC ESI**
- ❑ **What's being done?**
- ❑ **Conclusions**

# About RERA

- **SADC Energy Ministers approved the establishment of RERA on 12 July 2002 in Maseru, Lesotho and it was formally launched on 26 September 2002 in Windhoek, Namibia – *the Seat of the RERA Secretariat***
- **RERA is one of the building blocks of AFUR – African Forum for Utility Regulators**
- **Clause 110 of the NEPAD Programme of Action endorses the establishment of such regional associations in Africa**

# ....About RERA

## ● Vision

*“To be a world class Association that ensures a consistent and harmonised regulatory framework in the energy sector within the SADC region”*

## ● Mission

*“To facilitate harmonisation of regulatory policies, legislation, standards and practices and to be a platform for effective cooperation among energy regulators within the SADC region”*

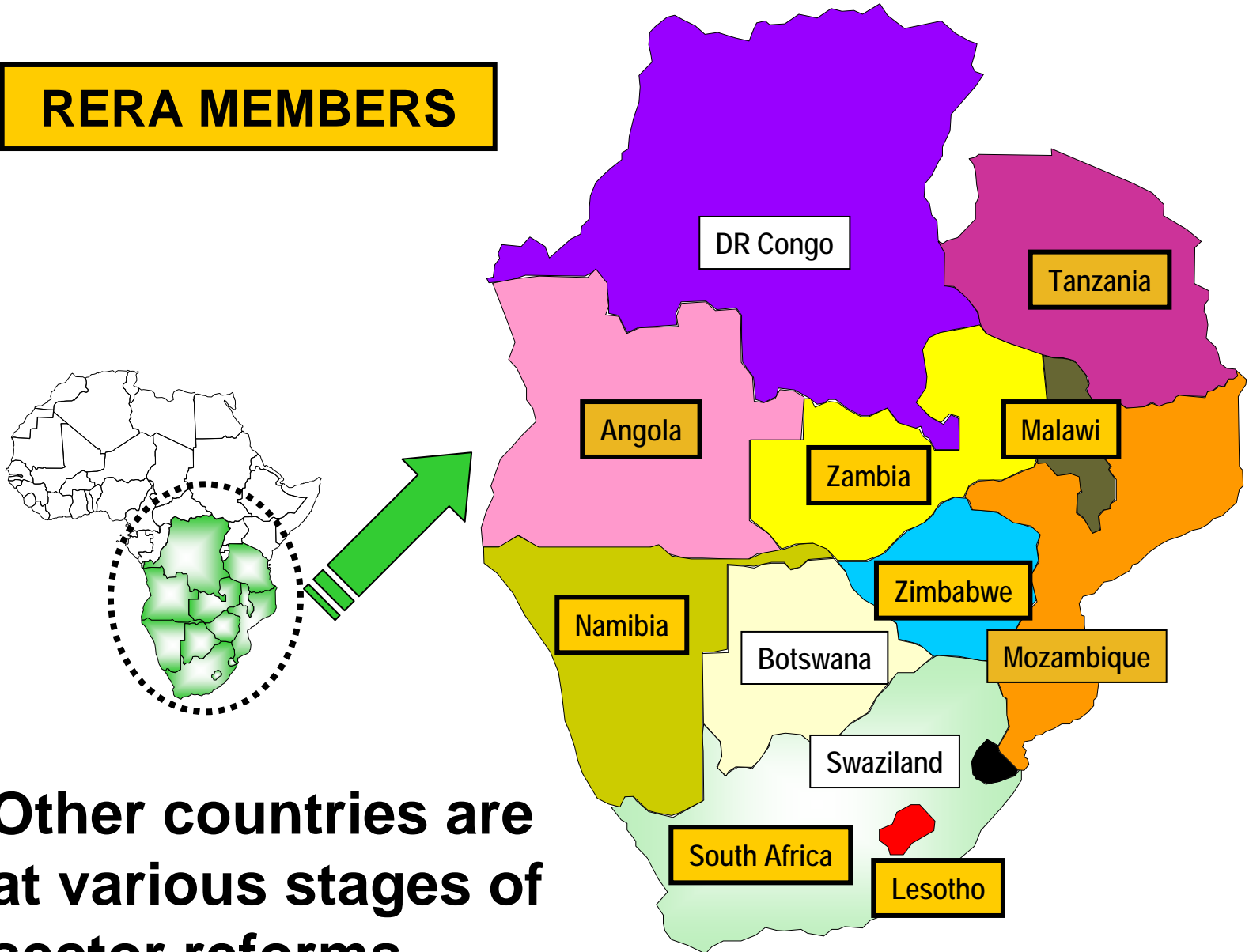
# ....About RERA

- **Current 9 RERA members are:**

1. National Electricity Advisory Council (**CNELEC**) of [Mozambique](#)
2. Electricity Control Board (**ECB**) of [Namibia](#)
3. Energy Regulation Board (**ERB**) of [Zambia](#)
4. Energy & Water Utilities Regulatory Authority (**EWURA**) of [Tanzania](#)
5. Institute for Electricity Sector Regulation (**IRSE**) of [Angola](#)
6. Lesotho Electricity Authority (**LEA**) of [Lesotho](#)
7. Malawi Energy Regulatory Authority (**MERA**) of [Malawi](#)
8. National Energy Regulator of South Africa (**NERSA**) of [South Africa](#)
9. Zimbabwe Electricity Regulatory Authority (**ZERC**) of [Zimbabwe](#)

# ....About RERA

## RERA MEMBERS



**Other countries are at various stages of sector reforms**

# What are Success Factors<sup>7</sup> for ESI Investments?

- ❑ **Recent analysis of IPP investments in Africa by the Management Programme in Infrastructure Regulation & Reforms (MIR) at the University of Cape Town (UCT) summarized the investment factors at country level as follows:**
  - ✓ **Favourable investment climate**
  - ✓ **Clear policy framework**
  - ✓ **Clear, consistent and fair regulatory oversight**
  - ✓ **Coherent power sector planning**
  - ✓ **Competitive bidding practices**
  - ✓ **Abundant low cost fuel & secure contracts**

# What are Success Factors for ESI Investments?.....

<b>Factor</b>	<b>Details</b>
<b>Favourable investment climate</b>	<ul style="list-style-type: none"><li>• Stable macro-economic policies</li><li>• Legal system allows contracts to be enforced, laws to be upheld, arbitration</li><li>• Good repayment record and investment grade rating</li><li>• Requires less (costly) risk mitigation techniques to be employed which translate into lower cost of capital and hence lower project costs and more competitive prices</li><li>• Potentially more than one investment opportunity</li></ul>

# What are Success Factors for ESI Investments?.....

<b>Factor</b>	<b>Details</b>
<b>Clear policy Framework</b>	<ul style="list-style-type: none"><li>• Policy framework enshrined in legislation</li><li>• Framework clearly specifies market structure and roles and terms for private and public sector investments (generally for single buyer model, not, yet, wholesale competition in African context)</li><li>• Reform-minded ‘champions’, concerned with long-run, lead and implement framework</li></ul>

# What are Success Factors for ESI Investments?.....

<b>Factor</b>	<b>Details</b>
<b>Clear, consistent and fair regulatory oversight</b>	<ul style="list-style-type: none"><li>● Oversight improves general performance of private and public sector assets</li><li>● Transparent and predictable licensing and tariff framework improves investor confidence</li><li>● Cost-reflective tariffs ensure revenue sufficiency and send right signals for new investments as well as efficient use of electricity</li><li>● Consumers protected</li></ul>

# What are Success Factors for ESI Investments?.....

<b>Factor</b>	<b>Details</b>
<b>Coherent power sector planning</b>	<ul style="list-style-type: none"><li>• Energy security standard in place; planning roles and functions clarified</li><li>• Power planning vested with lead, appropriate (skilled, resourced and empowered) agency</li><li>• Power sector planning takes into consideration the hybrid market (public and private stakeholders and their respective real costs of capital) and fairly allocates new build opportunities among stakeholders</li><li>• Planning has built-in contingencies to avoid emergency power plants or blackouts</li></ul>

# What are Success Factors for ESI Investments?.....

<b>Factor</b>	<b>Details</b>
<b>Competitive bidding practices</b>	<ul style="list-style-type: none"><li>• Procurement process is transparent and competition ultimately drives down prices</li></ul>
<b>Abundant low cost fuel &amp; secure contracts</b>	<ul style="list-style-type: none"><li>• Cost-competitive with other fuels</li><li>• Contract safeguards affordable and reliable fuel supply for duration of contract</li></ul>

# Status of SADC ESI

- **RERA survey done in 2008 with support from the USAID Trade Hub to review current status of ESI & the following are worth noting:**
  - Most countries have policies but they need to be reviewed and updated in line with best practices. Capacity to implement policies is inadequate in some of the countries
  - ESI reforms are, in most cases, incomplete & need to be finalised in line with adopted policies

## .....Status of SADC ESI

- ESI tariffs are generally not cost reflective to sustain the industry, and not providing right signals for new investment & energy efficiency
- Most power generation projects are too big for national markets & financing mechanisms for cross-border projects are not in place
- Different country regulatory frameworks remain a challenge in creating a viable regional market and promoting regional trade/investment.

## .....Status of SADC ESI

- Negotiating power purchase agreements (PPAs) takes too long and is seriously affecting the speedy implementation of some of the important projects in the region
- Reconciling regional vs national plans/interests is a challenge as some countries are placing more emphasis on policies of self-sufficiency than regional pooling

# What's being done?

- **On-going regional initiatives include:**

- **Policies**

- **Policies are either being reviewed and/or updated in a number countries**
    - **Some countries are developing and/or revising the policy implementation strategies and targets**

- **Reforms**

- **Discussions are taking place in some countries on the structures of the ESI that would encourage IPPs/PPPs & improve service delivery**
    - **10/15 countries have regulators and others are at various stages of establishing regulators**

# What's being done?

- **On-going regional initiatives include:**

- **Tariffs**

- **Ministers approved the general principle of having cost reflective tariffs in 2004**
    - **DBSA supported a SAPP study on tariff setting principles & it was completed in 2008**
    - **3 countries have migration paths towards cost reflective tariffs and other countries are in the process of carrying out cost of supply studies to do so**
    - **Upward tariff adjustments are noticeable in most countries as part of the move towards cost reflective tariffs in the region**

# What's being done?

- **On-going regional initiatives include:**
  - **Tariffs.....**
    - **RERA, with support from the USAID Trade Hub, is in the process of:**
      - ✓ producing a 2009 Tariff Publication for the SADC region that will show the tariff levels of various countries
      - ✓ developing a Strategy to move towards cost reflective tariffs
  - **Regional Electricity Trading**
    - **SAPP, with support from Norway, has developed a trading platform for the competitive market that is currently on trials**

# What's being done?

- **On-going regional initiatives include:**
  - **Regional Electricity Trading.....**
    - **SAPP, with support from Sweden, has developed the “Ancillary Services & Transmission Pricing System” whose implementation will be phased-in over a 3-year period**
    - **RERA, with support from World Bank, is currently developing regulatory guidelines to facilitate cross border electricity trading**  
*(Consultants will make a presentation on this important project)*

# What's being done?

- **On-going regional initiatives include:**
  - **PPA Issues**
    - **RERA & SAPP are reviewing issues delaying negotiation of PPAs with a view to reduce the lead time of concluding PPAs in the region**
    - **Plans are underway to initiate a PPA benchmarking study and a series of IPP/PPA training courses in the region**
  - **Power Pooling**
    - **SAPP has updated its Pool Plan with support from the World Bank and discussions are underway on how best to adopt this region Plan so that it does not just gather dust but gets implemented**

# What's being done?

- **On-going regional initiatives include:**
  - **Cross Project Financing & Licensing**
    - **A “Cross Border Financing Model for Electricity Projects in SADC” to expedite project implementation is being developed with support from DBSA and other partners. The Draft Model is under consideration.**
    - **RERA is also working with the USAID Trade Hub to develop a framework for licensing of cross border projects such as Westcor & ZIZABONA**

# What's being done?

- **On-going regional initiatives include:**
  - **Project Implementation Framework**
    - **Ministers approved an institutional framework/structure to create effective champions for regional projects, especially trans-boundary projects**
    - **The framework entails setting up a Project Implementation Unit (PIU) at the SADC Secretariat, national project steering committees and national project teams to monitor the implementation priority projects**

# Conclusions

- **Energy sources are in abundance and investment prospects are also significant given the low access levels & increasing demand for modern energy services**
- **SADC region recognises need for a very pragmatic approach and paradigm shift to address the current power crunch and attracting investments**
- **There is a strong commitment to creating a conducive investment climate in the energy sector as evidenced by on-going initiatives & others to be initiated soon**

# Conclusions

- **There can be no better time than now for the investors to seize the great opportunities for investment in the energy sector through IPPs/PPPs**



**Thank You!**