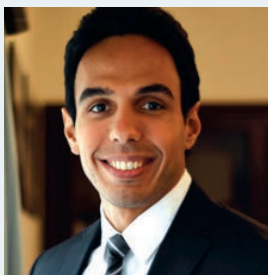


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Egypt's feed-in tariff programme is helping to stimulate the green energy market



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## RENEWABLE ENERGY

# Power of feed-in tariffs

For many years, Egypt has faced a major challenge in levelling up energy generation capacities in the face of rising electricity consumption. Power blackouts, a daily occurrence for many Egyptians, stand out as one of the most explosive socio-political issues. With 95 per cent of Egypt's power generation depending on fossil fuels, mostly gas-fired plants, the country also faces a challenge to diversify its energy sources over and above its desperate need to increase power generation capacity.

As a stepping stone for the country's ambitious programme to procure 12GW of renewable energy capacity by 2020 – the largest renewable energy target in the Middle East and North Africa (MENA) region after Saudi Arabia – the Cabinet of Ministers announced the introduction of Egypt's feed-in tariff (FiT) programme in September 2014. Egyptian authorities regard solar photovoltaic and wind facilities as an effective way to deploy additional power generation capacity and to attain the necessary production stability through diversification.

### The launch off-takers

The off-taker under the FiT programme will be either the Egyptian Electricity Transmission Company (EETC) – the country's bulk power purchaser and sole operator of the grid – or distribution companies (depending on project sizes). The off-taker will commit to purchase the produced power pursuant to power purchase agreements of 25 years' term for photovoltaic facilities and 20 years' term for wind facilities.

The programme will be phased in through regulatory periods. The first regulatory period runs until 2017 or until the targeted capacities of 4,300MW (2,300MW of solar photovoltaic facilities and 2,000MW of wind facilities) are reached, whichever comes first. The Egyptian government will reassess the tariff by the end of each regulatory period and the reassessed tariff will only apply prospectively to new contracts.

A few weeks following its invitation for pre-qualification submissions, the government released a shortlist of 110 qualified applicants for solar photovoltaic and wind FiT projects including 13 small-to-medium scale solar photovoltaic facilities (up to 20MW), 69 large-scale solar photovoltaic facilities (20-50MW) and 28 wind facilities ranging from 20-50MW. Contrary to expected scepticism from investors, the bidding for the large-scale solar projects was highly competitive and exceeded the government's targeted capacity of 2,000MW by around 50 per cent. This means that a number of bidders will likely miss out on the first regulatory period. One reason for investor excitement is the market and demand size of Egypt – it is the Arab world's most

populous country. To put Egypt's FiT programme into perspective, the first round of the pioneer FiT programme in Jordan comprised only 12 medium-scale projects (each with 10-20MW capacity), one 50MW project and one 117MW wind project.

### Play the 'solar park' way

To facilitate capacity deployment, the government is adopting the 'solar park' model, providing 36 plots of land to qualified bidders for large-scale solar projects on a first come, first served basis. The government-allocated land will be fully permitted and will be subject to an annual usufruct tariff equal to 2 per cent of the value of power withdrawn through the project. Developers will bear the interconnection costs to the nearest sub-station; however, projects within the designated solar parks will participate in a cost-sharing scheme so that all developers in those sites will pay equally for the interconnection. Hence, qualified bidders need to position themselves to join the top of the queue for site allocation, particularly for solar projects, and thereby project award.

On the tariffs side, the first regulatory period tariff is regarded as highly lucrative (more than double the tariff for the 100MW PV project tendered by the Dubai Electricity and Water utility in November 2014). However, soaring public budget would naturally raise off-taker risk concerns. Political pressure behind the renewable policy alone is not enough as it might quickly fade if the financial strain on the government becomes too much: a lesson well learnt from European markets. To address these concerns, the government will shift the burden to bulk consumers (as determined annually by the Cabinet of Ministers) who will be mandated to purchase certain quotas of renewable power at the applicable tariff. Such quotas are managed through the Renewable Energy Certificates system. Moreover, medium and large scale projects (i.e. those with capacity above 500 kW) will be eligible for sovereign guarantee by the Ministry of Finance covering the off-taker payment obligations.

The nature of renewable power projects, with their high upfront capital requirements and low operational costs, further raises a challenge of bankability. Accordingly, draft project documentation (including the power purchase agreement) have been prepared based on Egypt's IPP precedents and the Suez wind farm 'build, own, operate' project and is currently being reviewed to ensure bankability.

While the government still needs to fine-tune its renewable energy procurement policy, it has provided enough impetus for the FiT programme to gain a foothold and move fast with the roll-out of renewable capacity deployment.



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