

META Monthly: Renewables Update - Special Edition

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Implementation of Namibia's new IPP Framework Postponed

In our June 2019 issue, we considered the Republic of Namibia's renewables sector and the surge of solar projects across the country in recent years. As part of the country's reforms to attract private investment in further projects, the Namibian Cabinet, earlier this year, approved a new Independent Power Producer (IPP) Framework. Although the Framework was supposed to come in effect on 1 September, we understand that Namibia's electricity Control Board (ECB) has recently taken the decision to postpone implementation while it engages in further consultations. In this special update, we take a look at the IPP Framework and its potential to energise the development of energy projects in Namibia.

The Republic of Namibia generates less than half the energy it consumes. As a result, Namibia relies on power imports from its neighbours, South Africa, Botswana, Zambia, Zimbabwe, the Democratic Republic of Congo (DRC), and Mozambique to fulfil its energy demand. However, Namibia has a small population, which is often considered as a negative factor due to low demand and thus deterring private investment in the energy sector. However, industrial power demand is projected to increase, especially across the mining sector. Namibian government projections estimate that the country's electricity consumption will double by 2035. It is therefore of no surprise that one of the Namibian government's key long-term goals is to build its domestic generation capacity in order to reduce its reliance on energy imports and spur additional growth in its mining and industrial sectors.

Generally, private energy investment requires a modern, cohesive, and reliable legal and regulatory environment to attract the interest of utility-scale independent power producers. As such, the Government of Namibia has implemented a number of reforms to strengthen the nation's power sector and to provide an enabling environment to investors and independent power producers.

Our last issue of META Monthly highlighted the success of Namibia's renewable energy feed-in-tariff (REFIT) program, which has been a boon to the Namibian power sector and brought new power developers to the market. But in some respects, the continued success of the REFIT program, as well as future investments, turn on Namibia's ability to modernize its legal and regulatory environment. In recognition of this fact, Namibia is in the process of

consolidating the country’s 70-plus power distributors into five Regional Energy Distributors (REDs), each of which is entitled to develop power generation capacity. While helpful, there is more to be done.

The next round of reforms will be implemented in phases, and are a monumental shift towards a market-based power sector and away from the centrally managed, state-owned utility model. The first phase, implementation of the **“IPP Framework,”** which was approved by the cabinet in April of this year, aims to liberalise the sale of electricity and open up the electricity market to new IPPs. This phase was due to come into effect on 1 September 2019, however we understand that Namibia’s electricity Control Board (ECB) has recently taken the decision to postpone implementation while it holds a consultative workshop in order to finalise the new rules and guidelines.

Once implemented, the new IPP Framework will introduce the following key reforms:

- 1. The single-buyer model currently requires IPPs to sell power to the national utility company, NamPower, which then sells the power to REDs for distribution to the end users. The new IPP Framework will replace the existing model with a new Modified Single Buyer Model (MSB), which permits IPPs to sell electricity directly to designated offtakers rather than requiring sales to NamPower.
- 2. The new IPP Framework will address certain developments that have taken place in the electricity supply industry but have not previously been formally acknowledged. In particular, the IPP Framework will formally recognise the bilateral trading agreements that have been entered into between small IPP projects supplying REDs, municipalities, mining companies, and other large power users.
- 3. Private energy producers will also be able to trade power with each other. Increased energy trading is expected to encourage competition in the market, resulting in reduced input costs and improvements in the quality and efficiency of services.

In the past the Electricity Control Board (ECB) had issued more than 35 IPP licences, with only 11 eventually reaching operation. Some attributed the low success rate to the developers’ failure to conclude power purchase agreements with NamPower. The IPP Framework will broaden the pool of potential power customers thereby lowering the risk that developers encounter with respect to negotiating and concluding power purchase arrangements.

More detailed information on the IPP Framework is likely to follow following conclusion of the ECB workshops, but we expect it will have a beneficial impact on the Namibian power sector. For more information on Namibia’s power market liberalization, please contact one of the attorneys listed below, or your usual Winston & Strawn contact.

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