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Egypt: the race to get FiT

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The Government of Egypt has said that it must invest US$12 billion in the electricity sector over the next five years in order to meet the country's urgent electricity demands. Renewable energy will be a key component, with investment in the sector anticipated to exceed US$10 billion. In recent years, renewable energy projects in Egypt have been developed under four separate schemes. Two have followed a competitive bid process. Under the first scheme, the New & Renewable Energy Authority (NREA) procured 750 MW of wind power capacity and a further 10 MW of solar capacity. Under the second scheme, Egypt has sought to procure 450 MW of renewable energy supply on a build-own-operate (BOO) basis. 120 MW of capacity has been installed under a third scheme for merchant independent power production, operational since 2012. A further 600 MW is in development. However, it is the fourth scheme, a feed-in tariff (FiT) programme launched at the end of 2014, which the Government expects to be the cornerstone of the country's renewable energy programme. 4.3 GW of renewable energy will be installed under the scheme, a huge increase from the other programmes and indicative of the scale of the Government's ambition for renewable energy in the country. **FiT scheme** Under the FiT scheme, Egypt plans 2,000 MW of solar and a further 2,000 MW of wind generation in the first regulatory period. The first regulatory period will end when these targets are met, or after two years, whichever is sooner. A further 300 MW will be developed under a separate programme for small-scale renewables projects. The first round of prequalified developers has already been named. Prequalified developers and potential lenders have been locked in discussions with Egypt's Egyptian Electric Utility and Consumer Protection Regulatory Agency (EgyptERA) and agencies under the Ministry of Electricity and Energy (including the NREA and the Egyptian Electricity Transmission Company (EETC)) as all parties seek to finalise the details for participation in the scheme. Project participation In recent weeks, the Government has released further information to address key commercial and bankability concerns arising as a result of those discussions. In the first week of April, EgyptERA issued its rules on special purpose vehicle incorporation and project participation. Unlike some more restrictive early leaked drafts, the rules permit a prequalified developer to hold equity sufficient to build up to 100 MW per substation and in each of the solar and wind programs. It is understood that there will be four separate solar project substations and five separate wind project substations. Therefore, a single qualified developer could hold up to 400 MW worth of solar projects and up to 500 MW of wind projects in the program. Further restrictions apply. Each prequalified consortium is required to hold at least 51% of the equity of the project for at least two years following commercial operations. Within that consortium, the lead member is required to hold at least 25% of the equity of the project for at least two years following commercial operations. The remaining 49% can be held by other investors, including investors who individually hold a greater percentage than the lead developer. If another investor within the 49% is another qualified investor, that qualified investor will be subject to the 100 MW per program, per substation location cap. Project documents In addition to the rules governing project participation, the EETC has released discussion drafts of the major project documents "” the power purchase agreement (PPA), usufruct agreement, network connection contract, a cost sharing deed and the PPA direct deed. Working to a very challenging timetable, developers submitted their comments on the project documents by 28 April. This was the developers' (and lenders') only opportunity to submit a formal commentary on these critical documents. Some of the key concerns arising out of the review are as follows.

- Government Guarantee. The PPA direct deed contains a Ministry of Finance Guarantee which would fall away upon termination or expiry of the PPA. The developers expect the guarantee to cover some obligations which would arise on or after termination, such as any payment of termination sums or purchase of the relevant facility.

- Change in Law. The developers consider that the conditions for Change in Law protection are narrow and the cost which the developers are required to bear before entitlement to additional money is unusually high.

- Currency exchange risk. The purchase price is stated to be payable in both USD ($) and EGP. The developers have proposed payment in USD ($) to ensure they are not exposed to currency fluctuation risk (which may affect debt service obligations).

- The requirements for commercial operation to be achieved remain to be developed in the draft PPA. Certification will be by an operating committee made up of three representatives from each party and an engineer. However, the decision of the operating committee cannot be referred to dispute resolution. This is an important omission for developers and lenders because, in the event of a split decision, the engineer (who is solely appointed by the buyer) will have the casting vote. Developers and lenders expect to see a right to appeal in the final version of the PPA

These concerns, together with other important commercial and bankability issues, were discussed at the recent Middle East Solar Industry Association (MESIA) Trade Mission in Cairo on 27 and 28 April. Dr. Mohamed El Sobky, the Executive Chairman of the NREA, speaking at the Trade Mission confirmed that the Government was very much alive to the issues raised by developers and would address them in the next and final iteration of the project documents. **The race is on** The race is now very much on for developers to maximize their participation in the FiT programme, to partner up and to obtain land allocations. Each developer is required to apply for a land allocation, with each application to be supported by a bank guarantee for 1% of the estimated project cost. A number of developer groups have already submitted successful applications and have entered into Memoranda of Understanding (MOU) with the Ministry of Electricity and Renewable Energy for access to land owned by the Government. At the MESIA Trade Mission, the Ministry signed a further seven binding MOU worth $500 million, meaning that one third of the Government's land set aside for the FiT programme has now been allocated. From the date of the MOU, each developer will have twenty months to achieve financial closure. Developers will be heavily incentivised to achieve financial close within the timeframe in order to take advantage of what are perceived to be generous tariff prices for this first regulatory period. The tariff price for wind projects between 3,100 and 4,000 operating hours is US$ 9.57 cents/kWh for the first five years. For solar projects between 20 and 50 MW, the price increases to US$ 14.34 cents/kWh for the first five years. By way of comparison, the tariff price bid by a consortium of Engie (formerly GDF Suez), Orascom and Toyota for the 250 MW Gulf of Suez wind farm was US$ 4.068 cents/kWh. Following financial close, the developers are required to increase the value of the bank guarantee to 2% of the actual project cost for the construction phase, reducing to 0.5% at the date of commercial operation. Developers will be expected to achieve commercial operation within 12 months of financial close. The timetable is robust and it is clear that Egypt is moving forward with this programme with a great deal of seriousness. Developers and lenders will need to be equally serious "” and move very quickly "” if they wish to take full advantage of this opportunity.