

<b>Country</b>	<b>Uganda</b>
<b>Request ID#</b>	2017000022
<b>Title</b>	Foreign Currency PPA Risk Analysis and Assessment of Local Currency financing options for Renewable Energy Development in Uganda
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## 1. Background and context

- Electricity generation in Uganda is capital intensive. Strategies for attracting investment in renewable energy generation have targeted global capital flows for direct investment in renewable energy (RE). To attract foreign investors' participation in the Ugandan electricity sector, therefore, required foreign currency denominated contracts to mitigate foreign exchange (FX) risk.
- Power generation costs account for about 60% of the end-user power tariff in Uganda. About 98% of generation costs in Uganda are denominated in foreign currencies and therefore, foreign exchange exposure of the tariff is a real threat to affordability of power.
- RE projects are usually financed in USD. The driver behind this is that the Ugandan Government wants to create a sustainable enabling environment for investors, with significant amounts of long-term debt capital only available in foreign currencies. As a negative impact, this approach tends to exclude local investors, however, power purchase agreements (PPAs) based on foreign currencies (mainly USD) generally decrease financing costs and consequently lower required feed in tariff (FiT) levels.
- Before 2010, the investment climate for renewable energy did not serve to attract the needed investments into energy generation despite FX denominated Power Purchase Agreements.
- Consumers pay for electricity in local currency. This creates a mismatch between revenues and costs for utilities. Uganda has addressed this with an automatic adjustment clause in end consumer tariffs, i.e. costs of FX mismatch are allocated as a pass through to the consumer.
- From a consumer perspective there is a trade-off between lower financing costs (and consequently lower FiT level) and increasing FX costs.

Please see the CTCN request document for further information about background and context. The document is available at: [https://www.ctc-n.org/sites/www.ctc-n.org/files/request/uganda\\_era\\_request.docx](https://www.ctc-n.org/sites/www.ctc-n.org/files/request/uganda_era_request.docx)

## **2. Objective, Activities and Deliverables for Fast Technical Assistance**

### **Objective:**

Electricity regulatory Authority (ERA) is seeking support to assess various options to further balance economic and financial viability of RE investments. By seeking to include local lender(s) / investor(s) involvement in the RE sector, ERA needs to have a stronger understanding of the following: how to minimise adverse FX impact on consumers, potential FX indexing instruments to adjust tariffs with minimal impact and what would the effect on tariffs be by encouraging local investors / lenders.

### **Activities:**

- Assessment of the current FiT programme and identify areas for reducing the FX risk for investors and consumers in Uganda.
- Preliminary assessment on how to design a FiT in local currency targeting local investors / lenders. The assessment must include a description of the overall policy structure, regulation, finance and operations of the proposed FiT in a qualitative manner. The activity will not include in modelling or quantitate assessments.
- Identify concrete methods and instruments for reducing the FX risks in RE projects with an objective to enhance local investments in RE project.

### **Deliverables:**

- An analytical assessment of the current FiT programme in the context of FX risk. The assessment must identify potential areas of intervention for reducing FX costs for investors and consumers in Uganda.
- An assessment of the potential and impact of the FiT in local currency.
- An identification of the concrete methods and instruments for reducing FX risks in RE projects in Uganda.

All deliverables must be made at the end of the assignment.

## **3. Timeline, duration and budget**

The Fast Technical Assistance will be launched by February 12 2018 and will have a total duration of one month.

The Fast Technical Assistance will be implemented by an international expert with a total allocation of 10 man-days. The assignment is homebased. The budget for the Fast Technical Assistance is USD 10,000.