Financial Provisions

Project made possible through funding by:

In Partnership with:

Institutional Partners:

KEY QUESTIONS FOR FINANCIAL PROVISIONS

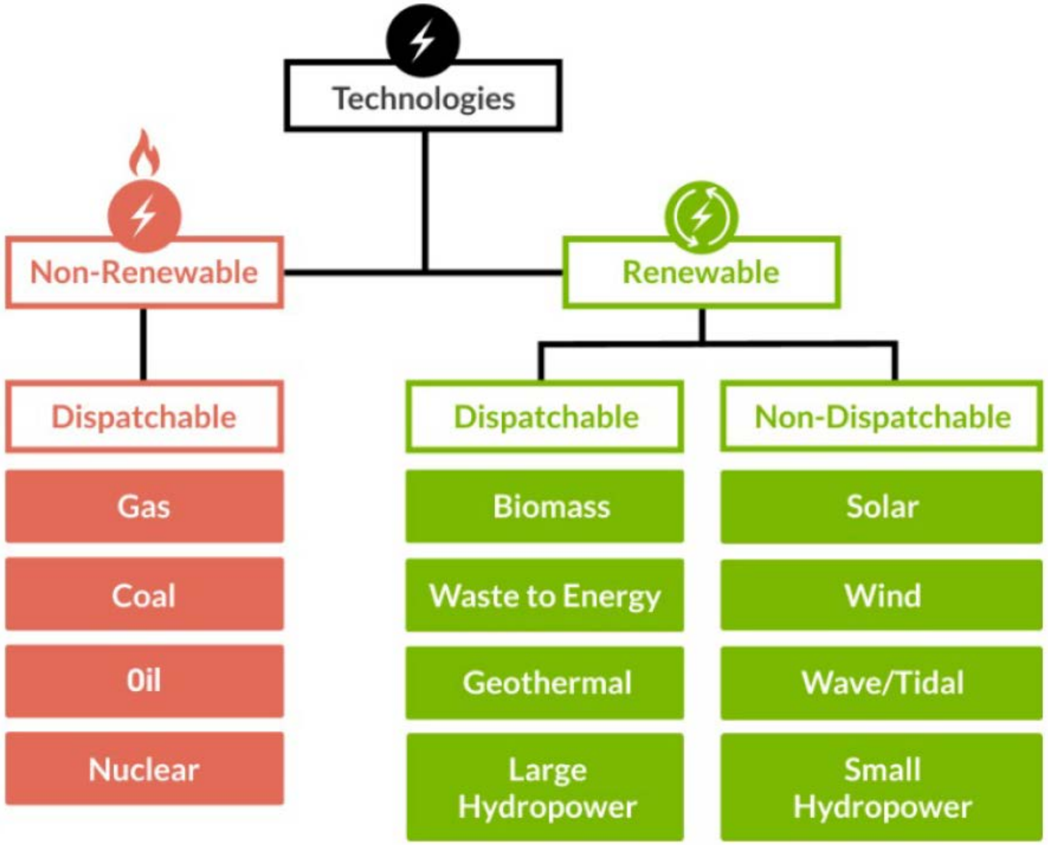
- How much power is being purchased?
- At what price?
- When is the payment due?

TARIFF STRUCTURE

- **What are they?**

- The *tariff* is the amount of money the offtaker will pay to the project company each month. It contains:
  - the actual price paid by the offtaker to the project company for capacity made available or energy generated
  - The currency unit used
  - A broader set of terms and conditions that surround the price

- Different tariff structures are used for dispatchable and non-dispatchable technologies



DISPATCHABLE VS. NON-DISPATCHABLE TECHNOLOGIES

- *Dispatchable* technologies are those that can be dispatched by the offtaker
  - The offtaker instructs the project company to generate a specific quantity of energy
- *Non-dispatchable* technologies are those that cannot be dispatched by the offtaker
  - They're fed into the network as and when available

TARIFF STRUCTURE

Non-Dispatchable Technologies

- Energy-only tariffs that are stated in currency per kWh/MWh
- The principle of deemed energy applies from scheduled COD

Dispatchable Technologies

Usually structured as **capacity-based** tariffs, which include:

- A capacity charge for the capacity of the power plant that is made available to the offtaker
- An energy charge for the energy that is dispatched by and delivered to the offtaker
- May be held to take-or-pay clauses in long-term fuel supply agreements

FEED-IN TARIFFS

What are FITs?

- A tariff commonly used to incentivize the production of renewable energy
- It is a *fixed* tariff, possibly differentiated by technology
- It provides *certainty* on 3 key terms for the producer:
  - Guaranteed access to the grid
  - Subsidized energy price
  - Long-term PPA

REFINANCING

Why Refinancing?

- A project company may seek to *refinance* its loans to:
  - Reduce the cost of debt (and increase equity returns)
  - Reduce foreign exchange risk
- As a result, the offtaker could benefit from tariff reductions and cost savings for local electricity consumers

INVOICING AND PAYMENTS

INVOICES

- In order to get paid for the energy it delivers, the seller must *invoice* the buyer, usually monthly
- The invoice includes:
  - Capacity payment
  - Energy payment
  - Supplemental payments

PAYMENTS

- Undisputed *payments* must be made in a currency agreed by the parties
- *Disputed amounts* are withheld from payment and contested, but an interest charge applies
- *Late payments* are subject to an agreed interest charge

TAX EXEMPTIONS

Why Tax Exemptions?

- To incentivize investment in the energy sector, a host government may provide *economic incentives* in the form of tax exemptions

- They can be:
  - Exemptions from custom import duties
  - Reduced registration fees
  - Reduced VAT
  - Income tax holiday during the operational phase

Tax Exemptions improve a project's financial viability and encourage investment, thus allowing a lower tariff that benefits electricity consumers.