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.