

CIRCULAR LETTER

TO : Representatives of Governments and Administrations; **No. :** 19/41
(Fiji, Samoa, Tonga and Vanuatu)

SPC Energy Contacts
SPC Georesources Focal Points

FILE : PRO 135/1/5/2

DATE : 21 October 2019

SUBJECT : **Regional Workshop on the Design of Bankable Power Purchase Agreements (PPAs) in Pacific SIDS: 25th -29th November 2019, Nadi, Fiji**

BACKGROUND

1. The Pacific Community's Centre for Renewable Energy and Energy Efficiency (PCREEE) was established in April 2017 as a regional platform for partnerships to accelerate the region's progress on renewable energy and energy efficiency.
2. The private sector has a key role to play in accelerating the region's progress on renewable energy and energy efficiency and Energy Regulators play a key role in establishing a regulatory regime that is conducive to private sector financing and investments. A Power Purchase Agreement (PPA) is an effective tool for risk allocation between the power utility and the investors, which underscores the importance of well-designed agreements to guarantee bankability and, thus, enable the deployment of renewable energy projects.
3. The PCREEE has been supporting Utility Regulators in the region to strengthen their capacity on drafting and negotiating win-win-win PPAs. It is now collaborating with the International Renewable Energy Agency (IRENA), the International Finance Corporation (IFC) and the Pacific Power Association in organizing a five-day capacity building initiative on the design of bankable renewable energy PPAs in Pacific Small Island Developing States (SIDS).

OBJECTIVE OF THE WORKSHOP

4. The objective of the workshop is to enhance the capacity of Pacific SIDS in designing and negotiating PPAs tailored to local contexts and to specific characteristics of renewable energy projects, to facilitate investments in the region.

DATE AND VENUE OF THE MEETING

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5. The meeting will be held at the Novotel Hotel at Nadi, Fiji on 25th – 29th November 2019.

AGENDA / PROGRAMME

6. The workshop will be delivered in two parts: -
 - One-day round table discussion to exchange on concrete lessons learned with the development of renewable energy projects and to generate mutual understanding of the needs of developers, investors, lenders and governments; and
 - Four-day hands-on training on the design of bankable PPAs, targeted at local regulators and utilities.
 - Given the technical nature of this capacity building initiative, an audience of local utilities and regulators that are involved in PPA design, negotiation and implementation are targeted. Attached as **Annex 1** is a concept note of the envisaged initiative for your information.

PARTICIPANTS

6. The workshop will be suitable for power utility officials, which are invited separately by IRENA and the PPA, and Energy Regulators which will be supported by the PCREEE. PCREEE will therefore support the participation of a participant each from the Regulators in Fiji, Samoa, Tonga and Vanuatu.

LANGUAGE

7. The workshop will be conducted in the English language only.

TRAVEL AND ACCOMMODATION

8. SPC will cover the travel costs of its sponsored participants only by the most direct and economical route plus a daily subsistence allowance to cover the costs on transit, meals, accommodation and incidentals. SPC will claim for reimbursement of purchased in case of cancelling participant after ticket is issued or no show.
9. Attached is the registration form. The Secretariat will assist with the booking of the hotel accommodation at the Novotel at Nadi.

VISA REQUIREMENTS

10. Acquiring the necessary visa to enter Fiji and on transit will be the sole responsibility of the participants. Participants should ensure that their passport has **six months or more validity** from the travel date.

INSURANCE

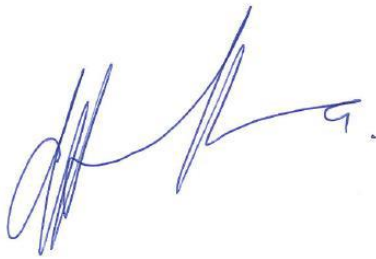
11. It should be noted that SPC does not insure participants whilst traveling to or from the workshop, nor during the period of attendance and will not be responsible for any expenses arising from sickness, injury or other disability or loss of life.

CONTACT INFORMATION

12. Completed nomination forms, see **Annex 2**, should be submitted and to be received by the 8th November 2019 at the latest. Further details about this workshop can be obtained from, Ms Milika Taufa and Mr Benjamin Jesse as per their contacts below:

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Dr Audrey Aumua
Deputy Director General (Suva)

ANNEX 1 - CONCEPT NOTE

Capacity Building on Design of Bankable Power Purchase Agreements in Pacific SIDS

Secretariat of the International Renewable Energy Agency (IRENA)

BACKGROUND

Power Purchase Agreements (PPAs) are long-term contract between sellers and buyers of electricity, defining each parties' rights and responsibilities, and defining mechanisms for dispute resolution. As these agreements lay out the contractual basis for risk allocation between the parties and represent risk hedging instruments for the seller, well-designed PPAs are key to allow investors to evaluate returns and lenders to assess debt serviceability. They are, thus, important elements to ensure the bankability of generation projects and, therefore, to enable their deployment.

Realizing the role of PPAs in enabling investments, regulators and power utilities wishing to design bankable agreements carefully adapt the clauses of these contracts to local contexts and to particularities of different generation technologies. The need to tailor contracts to different circumstances becomes even clearer when one considers features of renewable generation technologies, varying local economic and finance landscapes, and regulatory regimes. In the case of generation technologies, for instance, characteristics such as short- and medium-term output variability and typical production profiles influence the design of delivery obligation clauses. And local authorities may opt for different contract terms and remuneration profiles depending on typical equipment lifetimes and technological capex-insensitivity.

Power utilities and regulators in some Small-Island Developing States (SIDS) have used PPAs for conventional thermal and hydro power generation projects for a long time. In Pacific SIDS, PPAs were introduced lately, with most being less than 10 years old. The ability to tailor PPAs to the specific characteristics of renewable generation projects (particularly biomass, wind and solar), considering the specific economic context of the Pacific SIDS, needs to be reinforced. Indeed, some countries already designed PPAs for utility-scale wind and solar projects, but are facing issues in their implementation.

IRENA's partners in the Pacific region, such as the Pacific Power Association, the Pacific Community's Pacific Centre for Renewable Energy and Energy Efficiency (SPC's PCREEE), and the World Bank Group, including the International Finance Corporation (IFC), have taken some initial steps to enhance local capabilities to attract capital to renewable energy and improve investment incentives for projects through better PPAs design. Yet, there is a need to support and build on the current momentum.

Enhancing the capabilities of local regulators and power utilities on the practical design of key clauses for risk allocation and pricing, and enhancing their ability to negotiate these clauses, is still needed to enable the emergence and use of PPAs fit to drive the commitment of capital to renewable energy projects in the region. Local regulators and power utilities can benefit from trainings on how the risk allocation emerging from these contractual design choices affect the nominal selling prices required by

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project developers, the incentives they perceive to efficiently operate the plant, and the risks borne by the off-taker.

The project described in this Concept Note aims at addressing these needs of Pacific SIDS. For that, it encompasses a two-part capacity building event, including: (i) invitation-only round tables focusing on lessons learned by existing projects, to create mutual understanding of the concrete needs of project developers, investors, lenders and governmental bodies; and (ii) a training event on the design of bankable PPAs for local regulators and utilities.

The Pacific Power Association, the SPC's PCREEE and the IFC are partnering with IRENA for the organization and delivery of the workshop.

OBJECTIVES

This document consists in a Concept Note for a capacity building event, targeted primarily at regulators and utilities, in designing, negotiating and implementing PPAs in the Pacific SIDS.

The capacity building event is expected to contribute to the improvement of PPAs in the region and enhance the capability of power utilities and regulators to design and negotiate bankable contracts, with the final goal of contributing to effective commitment of private capital to the deployment of renewable energy projects in the Pacific SIDS. The importance of the role of the regulators in facilitating private sector investments on renewable energy was highlighted in the outcome of the 2nd meeting of Pacific Energy Ministers in 2014. Since then, the SPC and PPA have been working on various initiatives to increase the readiness of regulators and utilities to design and negotiate bankable PPAs for renewable energy projects. The need for this workshop was identified in a meeting between IRENA and the Pacific Power Association at the 9th IRENA Assembly. In order to add value and build on earlier initiatives in the region, the design of bankable PPAs was identified as a priority area for capacity building in the region.

SCOPE OF WORK

The project described in this Concept Note encompasses a **Capacity Building Event on Preparing Bankable Power Purchase Agreements for Renewable Energy Projects in Pacific SIDS**. This will take the form of a five-day event to be held on the week of November 25th 2019, in Nadi, Fiji, with two components:

a. **Round Tables on Concrete Lessons from Project Development:**

This full-day activity consists of a series of round tables with selected representatives from project developers, investors and lenders. In these invitation-only round tables, stakeholders will discuss past experiences with the development¹ of renewable generation projects in SIDS of the Pacific, highlighting positive aspects, opportunities for improvement and lessons learned. Participants will

¹ As well as with implementation and/or operation, for those projects that successfully reached commencement of commercial operation.

be incentivized to include PPAs among the topics to be approached, but these contracts need not be the sole focus of the discussion.

Three to four round tables are expected to be held. Each round table will focus on one specific renewable generation project, with developers, investors or lenders that participated in that project invited to speak. The round tables will only be attended and observed by the invited participants, representing regulators and utilities of Pacific SIDS, and a mediator from one of the organizing partners. The *attendance by invitation* aims at enabling candid conversations about successes and improvement opportunities.

The mediators will seek to extract relevant information on possible improvements to typical PPA models used in the region. This information will be used to guide the discussions of the training described in item (b) below, allowing the trainers to highlight PPA elements that are most likely to generate improvements in the region.

This 1-day event is expected to be held on the day immediately preceding event (b) below. It aims not only at motivating representatives of governmental bodies to participate in the subsequent training of item (b), but also at generating mutual understanding of the needs of developers, investors, lenders and governments, thus representing an additional step to facilitate investments in the region.

b. Training on Design and Negotiation of Bankable PPAs for Renewable Energy Projects:

This consists of a four-day training targeted at local regulators and power utilities, held immediately after component (a). The expected attendance is 50.

The training will involve conceptual and practical parts, and will focus on enabling attendees not only to understand how the decision on key clauses for allocating risks in PPAs affect energy prices and risks borne by each party, but also to simulate the effects of these decisions with aid of a project cash flow model that emulates the view of the renewable energy project from the standpoint of investors and lenders². The training will also cover basic notions of PPA negotiation.

The topics to be approached include:

- Roles and needs of different stakeholders in a project finance transaction.
- Key financial performance indicators of renewable energy projects for investors and lenders.
- Design of PPA clauses and risk allocation via PPA design, including simulation of impacts on financial performance of assets:
 - This represents the core of the training event.

² IRENA already has a project cash flow model targeted at simulating the effects of different PPA design choices, which was used in previous engagements in Central America (in a technical assistance to Panamanian authorities) and West Africa (in two of training sessions for ministries, utilities, and regulatory bodies of West Africa Power Pool countries). Though this model is already available, a more user-friendly and version of it will be prepared for the workshop, to be used in the practical part of the training.

- The goal is to enable governmental entities designing and negotiating PPAs to understand the impact that different choices have over the risks borne by the buyer and the seller, and thus on nominal contract prices and bankability of contracts.
- The clauses to be addressed include those dealing with nomination of currency of contract price, indexation, delivery obligations, late commissioning disincentives³, remuneration structure, curtailment.
- Basics of cash flow modelling under different PPA designs, and financial performance of renewable generation projects.
- Risk allocation via contract design in negotiations.
- Case studies.

For each day, the conceptual part is expected to be held during the morning, and the practical part, involving simulations of the impact of PPA design over key financial indicators for investors and lenders with aid of the project cash flow model, is expected to be held during the afternoon.

Examples of actual situations faced during contract design and negotiation in PPAs from Pacific SIDS will be used in the practical part of the training, with the goal of maximizing applicability of the exercises and interest of the audience, whenever possible. This does not mean using detailed information of projects/contracts, since their anonymity will be retained, but creating examples that address situations reported as relevant by stakeholders from the region, with realistic data.

While the main target audience of the training event are representatives of regulators and power utilities from the Pacific SIDS, representatives of the private sector may attend the conceptual part of the training in the morning, provided that there the venue used for the workshop has sufficient capacity and that these private sector representatives fund themselves.

EXPECTED OUTCOMES

The expected outcomes for the **Workshop on Preparing Bankable Power Purchase Agreements in Pacific SIDS** are listed below:

- Enhanced understanding by local authorities regarding constraints and needs of developers, investors and creditors engaged with renewable energy projects, setting the tone for bankable PPA design.
- Enhanced decision-making capabilities of regulators and power utilities of Pacific SIDS regarding PPA design and choice of contractual elements that affect risk allocation and pricing, acquired via theoretical training and practical simulations.
- Enhanced negotiating capabilities of the same group, through active participation in the practical part of the training activity, allowing more effective and robust interactions with project developers interested in investing in renewable generation in SIDS.

³ The training will include a brief discussion on legal, technical and financial requirements from IPPs to seek to ensure the ability of the seller to commission the project timely and perform adequately regarding delivery.

- Exchange of experiences in PPA design and negotiations among the attendees of the training activity, elicited during the practical activities, which are expected to be group activities.
- Material contribution to the readiness of SIDS to design and implement PPAs tailored to renewable energy technologies and with risk allocation patterns that can effectively attract private capital to projects in the region.

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ANNEX 2 – NOMINATION FORM

Regional Workshop on the Design of Bankable Power Purchase Agreements (PPAs) in Pacific SIDS: 25-29 November 2019, Nadi, Fiji

Name: _____

Designation: _____

Employer: _____

Contact Details:

Postal Address: _____

Telephone No: _____

Fax No: _____

Email address: _____

Signature of the Nominating Authority and Stamp