



Power Sector Reforms and Increasing Electricity Generation

In our last two entries, we gave you insights into how the Malawi Compact is helping to lay a good foundation in the country's power sector in terms of expanding the transmission and distribution networks. The objective is to ensure that Malawians and businesses access reliable quality power that will stimulate growth and development.

But much as the Compact is making such investments, in power infrastructure, we must accept the brutal honesty that the country is currently stuck in its electricity generation capacity, with an installed capacity of at 366 Megawatts but with available capacity of around 180 Megawatts at the moment. It will be purely illogical for the country to have modernized and expanded transmission and distribution networks, when at the same time the issue of generation capacity will not be solved. That is why the country needs to urgently attract the private sector to invest in power generation to meet the current growing demand for electricity by domestic consumers and the industries.

This therefore calls for reforms in the power sector. The Malawi Power Compact is thus investing in reforms through the Power Sector Reform Project (PSRP),

which simply complements the Infrastructure Development Project (IDP).

The objective behind these reforms is to create an enabling environment for future expansion of the power sector by strengthening sector institutions and enhancing regulation and governance of the sector.

It is a fact that the electricity assets that the Compact is investing in will only perform well in an environment which ensures that the institutions responsible are vibrant and are in good financial health.

Tellingly, it will take a financially and operationally stronger ESCOM, the newly-created generation company, the Electricity Generation Company (EGENCO) and upcoming Independent Power Producers (IPPs) to deliver quality and reliable electricity in an environment that is more conducive than before.

Be mindful also of the fact that MCA-Malawi aims to bolster the efficiency and sustainability of hydropower generation and at the same time prepare the future expansion by strengthening Malawi's power sector institutions, regulation and governance.

However, much as the Malawi Compact is laying a robust foundation for an expansive

power sector infrastructure, such infrastructure would be meaningless without the much-needed active participation of private sector players in the sector.

That is why MCA-Malawi and its project partners have joined forces in order to achieve the set power sector reform goals.

These goals include achieving a rational power tariff and policy environment that would allow power institutions to cover and cushion the cost of producing electricity, expanding and maintaining the electricity grid as well as encouraging the private sector investment in the power sector.

Come September 20, 2018, the Compact will come to an end. At that time, the new high voltage lines will be stringed and the new power substations currently under construction will be in operation. But looking at Malawi's forecast demand for power, it would be imperative for Malawi to augment its power generation capacity now to cater for such a growing demand for electricity.

The good news at the moment is that the Ministry of Natural Resources, Energy and Mining has the IPP framework which will provide mechanisms and an environment for private sector participation in the energy

sector to propel the generation capacity of our country and help close the glaring financing gap in the sector

In Malawi, the financing gap in the energy sector remains huge. For example, Government estimates that the country will need to increase its installed generation capacity to at least 2,500 Megawatts by 2030.

Such a projection in terms of generation capacity entails an investment of at least \$8 billion to be made in generation, transmission and distribution. This is obviously a substantial investment and it's almost double the size of the Malawi economy in terms of nominal Gross Domestic Product (GDP).

The bottom line is that what Malawi needs now is entry of IPPs to generate the power and this is why the reform project is working with the Government and MERA to create an environment that will attract new generators. Right now, an enabling environment is being created and the expectation is that sooner than later new investors in the form of IPPs will come on board and invest in power generation.

It is in the same vein that MERA believes that the entry of IPPs into the power market will go a long way in removing electricity supply constraints currently

being experienced.

But of course IPPs will be interested to enter the power market if ESCOM is capable of buying the generated electricity at a cost reflective tariff that will enable their business expand.

The passing into law of the Electricity Amendment Bill in June 2016 was one of the major milestones in ensuring that this enabling environment is created. The new Electricity Act has not only led to the birth of a new firm, Electricity Generation Company (EGENCO) through unbundling of ESCOM but also an end to the monopoly that ESCOM enjoyed of being a generator, distributor and seller of electricity. EGENCO, under the new law, has been created to produce power and manage all the assets that are used in generation while ESCOM remain responsible for transmitting and distributing power.

With the new law in place, Malawi has laid the ground for the public and private sector investment because Government now has a suitable market model for the power sector and building blocks of a bilateral power trade market.

So where are we with the reforms? Have we created the desired market for IPP entry?

Join us next week!

For more information on the Malawi Compact please visit our website on

<http://www.mca-m.gov.mw/>

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