



Power sector reforms and attraction of IPPs

Having linked power sector reforms and Malawi's urgent need for increased electricity generation, let us now take stock of the progress and gains made in the implementation of reforms thus far.

As explained in previous entries, one of the three project objectives of the \$350.7 million MCA-Malawi Compact is to create an enabling environment for future expansion of the power sector in Malawi by strengthening sector institutions and enhancing regulation and governance of the sector.

In order to achieve this, MCA-Malawi, alongside its project partners, is at the height of implementing the Power Sector Reform Project (PSRP).

The project continues to provide Malawi Government's policy reform direction while at the same time building the much-needed capacity in key sector institutions of ESCOM, MERA, the Ministry of Natural Resources Energy and Mining (MNREM) and most recently the Electricity Generation Company (Egenco).

Suffice to state from the onset that the reform project has two main activities and these are; ESCOM Turnaround and the Regulatory Strengthening. The

former mainly targets ESCOM while the latter targets MNREM, the Department of Energy (DOE), MERA, and Egenco. With Compact support, it is a fact that cannot be disputed that Malawi is witnessing a new dawn that is sweeping across the power sector.

While reforms are being introduced, implementation of activities in the sector is not 'business as usual'. This is being done with a view to bring out efficiency in the sector.

Following the passing of the Electricity Act Amendment Bill in June 2016, ESCOM was unbundled on 31 December 2016 and a new company called Electricity Generation Company (Egenco) Limited officially started its operations on January 1, 2017. The unbundling of ESCOM is key in bringing in competition in electricity generation as ESCOM's monopoly came to an end. ESCOM has also taken up new functions of a Single Buyer (SB) and System and Market Operator (SMO). A Single Buyer is a company that is licensed to buy all electricity produced locally by generators. It can also import from and export electricity to other countries. An SMO is a company that is licensed to operate the

electricity transmission system and the electricity market.

For those that are not familiar, before unbundling of ESCOM, no firm was allowed to participate in the Malawi's Electricity Supply Industry. The law allowed ESCOM to generate, transmit and distribute power without any competition. This meant that the utility company had the licence to undertake all the three functions simultaneously. Unbundling however, means that ESCOM has a license for transmission and distribution only with Egenco and upcoming Independent Power Producers (IPPs) getting licensed to generate electricity.

By unbundling ESCOM, Government has created space for IPPs or simply private sector players, to enter the electricity market to generate electricity thereby increasing electricity supply which would in turn be supplied to the national grid. In short, the generation of Electricity in Malawi is now open to new investments from different players.

For any competition to succeed, there is need for guidelines and set of rules to ensure that both the players and consumers benefit. Every private investor plans on profits to expand and sustain their

business. The consumer on the other hand, will willingly pay knowing that this deal will benefit them. And this is why the Department of Energy has developed the IPP framework which provides rules of engagement for IPPs, mechanisms and guidelines to help propel the generation capacity. This would in turn help close the glaring financing gap for electricity generation in the sector. The IPP Framework further provides for mechanisms for buying IPP services through both solicitation and unsolicited methodologies. The framework will be launched soon and will be available to interested investors.

From a regulatory strengthening perspective, it should also be emphasized that some reforms targeted MERA to ensure that it has the capacity and tools to enable it continue to regulate the Energy sector in Malawi in a fair, transparent and cost effective manner, for both the existing market players and more importantly for the private sector participants, whether local or foreign to invest in the power sector.

Hence apart from the IPP Framework, Malawi needed to have regulatory instruments that are of high standards and have proved successful

in other countries. MERA has now developed regulatory instruments such as the Grid Code – (technical requirements that have to be achieved in order to connect to and use a national electricity grid system), Market Rules and the Tariff Methodology (rules and basis for determining tariff) in order to bring certainty and predictability for investors on matters like operational requirements and access to the electricity networks, among others.

With the reforms, MERA clearly anticipates new investments in power generation and this is expected to culminate into increased availability of electricity in Malawi.

Now, having explained all this, are we in the right path in creating an enabling environment for IPPs to enter the market? The answer is yes. Of course this is a continuous process and MERA believes that the right and enabling environment has been created and the expectation is that sooner rather than later new investors in the form of IPPs will come on board and invest in power generation. This will go a long way in removing electricity supply constraints currently being experienced in Malawi.

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

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