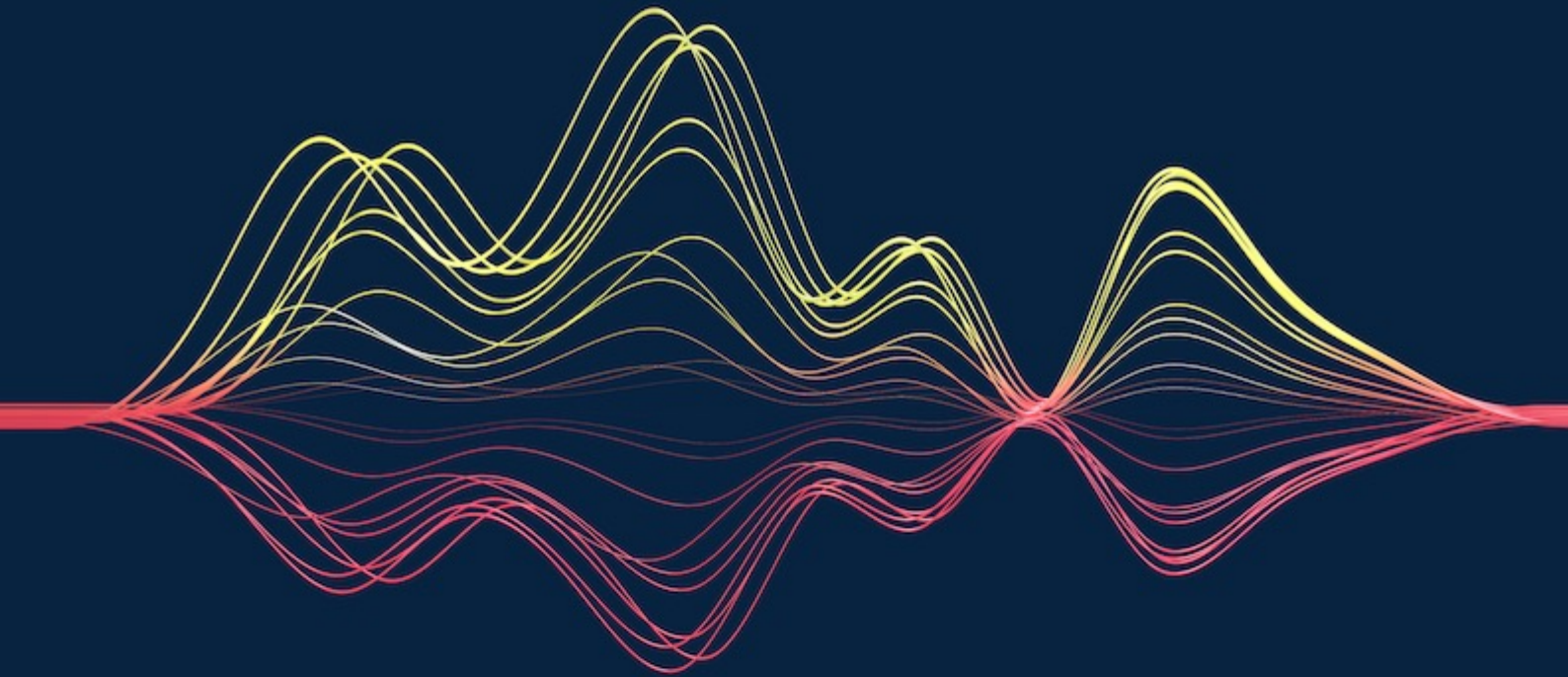


ZIMBABWE

Corporate Power Purchase Agreements





Zimbabwe

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PPA structures and parties involved

To what extent are corporate PPAs presently deployed and what sort of structure do they take?

The electricity market structure in Zimbabwe comprises one utility company, the Zimbabwe Electricity Supply Authority (ZESA). This is a state-owned entity whose task is to generate, transmit and distribute electricity in Zimbabwe. The functions of ZESA are performed through the Zimbabwe Power Company (ZPC), the investment vehicle in the generation of electricity, and the Zimbabwe Electricity Transmission and Distribution Company (ZETDC), the body responsible for the transmission and distribution of electricity. The Zimbabwe Energy Regulatory Authority (ZERA) regulates the procurement, production, transportation, transmission, distribution, importation and exportation of energy derived from any energy source in Zimbabwe. ZERA is responsible for approving power purchase agreements (PPAs) between IPPs and ZETDC (the Utility) and it provides the criteria for tariff approval through a Tariff Code.

Corporate PPAs (cPPAs) in Zimbabwe are, on the balance, not widely deployed. They have been developed over time in an ad hoc manner, mainly by large corporate buyers (eg mines and cement plants) who wish to secure reliable electricity supply as a result of persistent power shortages for several years, resulting in regular and disruptive load shedding.

The most common structure for cPPAs in Zimbabwe is the Private Wire/Direct Wire structure, whereby the generator/IPP sells electricity directly to a corporate buyer, rather than being notionally passed through the national power grid.

Some projects have also been structured as Physical PPA/Wheeling PPA/Sleeved PPAs (or hybrid/substructure thereof), whereby the IPP/generator enters into an agreement with ZETDC to sell power to ZETDC and simultaneously, a corporate buyer enters into a contract with ZETDC to purchase all the power generated by the generator. ZETDC thus "sleeves" the power through the grid and "sells" power to the corporate buyer at its site. ZETDC will perform a balancing service under this PPA (renewable energy is intermittent) by topping up the renewable electricity with extra if needed (for example when the generator is not generating). ZETDC then charges a wheeling fee.

Alternatively, the corporate buyer and IPP/generator can negotiate a PPA directly and then present the PPA to ZETDC, the electricity supplier. ZETDC then:

- as the buyer, enters into the PPA with the IPP/generator (seller); and
- as the seller, enters into the same PPA with the corporate buyer but with a mark-up on the price to cover its cost.

These have been somewhat successful in helping ZETDC pay for imported electricity in foreign currency, which is currently in shortage.

Other IPPs and corporate buyers have also elected to structure their PPAs in the form of a hire purchase agreement, or equipment lease, with the underlying price being linked to the energy produced by the applicable system. This is mainly done to address the requirement of obtaining a license for the sale of power.

Note: As an alternative to entering into a PPA with a renewable generator, some corporates may also choose to build a renewable energy plant onsite eg on the rooftop of, or alongside, a factory or office. In this case, the corporate will self-fund the installation itself, or take out a loan.

Do the country's regulators allow corporate owners to purchase (1) directly from a facility, or (2) from a choice of suppliers?

Yes.

Other than the generator and the off-taker, are any third parties commonly party to the PPA structure (e.g. a utility or other market agent)?

Yes, the utility ZESA as outlined above. Currently, there is no government support given by the government of Zimbabwe. There is, however, proposals to involve those government entities who can guarantee balance of payments in foreign currency, eg the Ministry of Finance and Economic Development, and/or the Reserve Bank of Zimbabwe.

Is a generator permitted to sell electricity directly to an end user? If so, do they require a licence or other form of authorization?

Yes, in principle.

No license is required for electricity generation, transmission, distribution, or the supply of electricity if less than 100 kW.

On the other hand, in terms of the Electricity Act [Chapter 13:19], every undertaking which generates, transmits, distributes or supplies electricity in excess of 100 kw, is required to hold a generation license, transmission and bulk supply license or distribution and retail license. As a practise and policy, the Electricity Licensing Guidelines, 2015, are used to guide persons wishing to apply for a license to provide electricity utility services in terms of the Electricity Regulatory Act [Chapter 13:23] (ERA).

Challenges

What are some of the technical, political, financial or regulatory challenges to corporations adopting green energy in the short/medium term in your country and how have these challenges been overcome (or how can they be overcome)?

The National Renewable Policy published in August 2019 summarizes challenges facing IPP/generators and the whole energy sector, in particular renewable energy sector, as follows:

Financial

- Limited incentives like electricity banking, trading, net metering for third-party access.
- While solar products are duty free, the country does not have fiscal incentives in place for investors, such as feed-in tariffs, tax rebates and renewable energy certificates, which have proven to be key drivers of renewables in European markets.

Regulatory and Administrative

- Limited clear tariff structure for renewable energy projects. Without clear tariff structures for grid-connected green projects, conflict is always likely between IPPs and the Zimbabwe Energy Supply Authority (ZESA), which owns the grid and is also a competitor.
- Inadequate regulatory framework for third-party sale of power.
- Uncertainty with regards to PPA structures as well as the procurement framework.
- High production costs affecting the economic viability of renewable energy projects.
- Inadequate institutional structures dedicated to renewable energy projects.
- Absence of clarity on the approvals and timelines for development of renewable energy projects and the responsible agencies for the same.
- Lengthy and complex administrative approval processes (which may take as much as 12 months in some cases).
- Land acquisition related issues, especially for projects that need large tracts of land.

Other reported challenges generally are as follows:

- In general, Zimbabwe has a high political risk profile, which makes it an unattractive destination for IPPs who need foreign funding to undertake projects in Zimbabwe. Where such funding is available, the insurance risk premiums may be prohibitive.
- Technical challenges relating to poor quality of (mainly) solar equipment and technologies imported by IPPs, including lack of skilled installers of most green energy technologies, resulting in high failure of such equipment.
- Shortage of foreign currency in Zimbabwe in general has been an insurmountable challenge for many IPPs. First, a financial model not denominated in foreign currency (ie in local Zimbabwean currency) is difficult to justify when most investments require foreign currency. This is compounded by the fact that ZESA/ZETDC do not pay for power that has been supplied to them from domestic sources in foreign currency, notwithstanding that the tariff set in a PPA (in particular in Physical PPA/Wheeling PPA/Sleeved PPAs) is in foreign currency. As such, many PPAs have become “unbankable.”
- Due to lack foreign currency in Zimbabwe, there’s no guarantee for most investors that they will be able to repatriate their profits and capital from Zimbabwe.
- The above also gives rise to domestic currency to foreign currency convertibility issues, meaning that even if the investor has adequate local currency to import equipment, or repatriate its profits, there is simply no foreign currency liquidity in the market.
- Policy uncertainty regarding whether or not government will grant support to IPP power projects in the form of an IPP implementation agreement to guarantee balance of payments or payments in foreign currency. It’s reported that ZESA imports USD20 million worth of electricity from neighboring countries, mainly Zambia and Mozambique. Ironically, up to 30% of the imports come from IPPs in those countries, compared to only 1.5% domestic IPP contribution. This amount could be used to give IPPs the necessary guarantees in foreign currency they require to unlock foreign investor funding. This lack of support has, therefore, left many PPAs in limbo.
- There’s also a perception that because the utility is also a major player in the energy market, there’s a general difficulty with negotiating PPAs with them as they most often than not have entrenched positions based on the prevailing law eg refusal to pay for power in foreign currency.

Practical solutions

- As stated previously, cPPAs are seen as increasingly allowing IPP/generators the opportunity to negotiate directly with corporate buyers, thus bypassing some of these challenges mentioned above, particularly where the corporate buyer is an exporter and therefore has its source of foreign currency.
- Further, if government support were to be given to guarantee payments in foreign currency, that may unlock funding from investors who will have a recourse in case of non-payments.
- Codifying incentives in law may also assist in improving viability of renewable energy projects. For instance, the National Renewable Policy suggests the following incentives in respect of sale of power to third-party grid access:
 - Indiscriminative open access to the grid to be granted to renewable energy producers or beneficiaries.
 - Priority dispatch to be granted to renewable energy producers.
 - An Energy banking facility to be extended by the utility for solar and wind generators.
 - Utility and the IPPs to enter into wheeling-agreements based on agreed models. This is seen as a nod to cPPAs in their many varieties.
 - Any wheeling agreements to be approved by ZERA within four months from the date of notification of the policy.
 - A net metering facility to be extended to beneficiaries, namely the consumers availing net metering facility.

Regulatory changes

Are there any anticipated regulatory changes which will alter the regulatory landscape for corporate green energy and corporate PPAs?

As stated above, a National Renewable Energy Policy was published in August 2019 to signify the possible change in law that is contemplated with particular reference to renewable energy. The report can be accessed [here](#).

It's under consideration that the Utility and the IPPs will be able to enter into wheeling agreements based on agreed models. This is seen as a nod to cPPAs in their many varieties.

Incentives and benefits

What is the corporate appetite for green energy, including any political or financial incentives available to corporates to adopt green energy?

Incentives currently available in the energy sector for corporates in renewable energy are as follows:

- National Project Status (NPS), which is envisaged in term of section 141 of the Customs and Excise (General) Regulations, 2001 (SI 154 of 2001) and is obtainable for projects that have national impact, bring benefit to the economy and create employment. Incentives available under this regime include:
 - duty rebates on importation of raw materials;
 - a tax holiday and an exemption from non-residents tax on fees payable in respect of any services relating to the project;
 - leeway to motivate for and negotiate additional fiscal incentives with the Commissioner of Domestic Taxes at the Zimbabwe Revenue Authority (ZIMRA) as well as non-fiscal incentives with the various line ministries.
- Duty Free imports on solar panels, solar equipment, electric motors, energy savers and lithium-ion batteries; and net-metering.
- The recently enacted Zimbabwe Investment Development Act (ZIDA) further provides wholesale incentives available to investors licensed under Special Economic Zones (SEZ). Licensed foreign investors can obtain SEZ status for their investment project, including the following incentives:
 - zero-rated Corporate Income Tax for the first five years of operation of the SEZ with a corporate tax rate of 15% applying thereafter;
 - duty free importation of capital equipment;
 - special Initial allowance of 50% of cost from year one and 25% in the subsequent two years;
 - exemption from non-residents withholding tax on fees for services that are not locally available;
 - an exemption from non-resident's tax on royalties; zero-rated Capital Gains Tax; and
 - inputs which include raw materials imported for use by companies set up in the SEZs, are imported duty free.
- An industrial, commercial or residential customer who generates electricity from renewable energy sources and supplies that to the distribution network (the Participant) can obtain a reduction in their electricity bill in terms of the Electricity (Net Metering) Regulations Statutory Instrument 86/ 2018. The Participant's reduction is in the form of a credit of 0.9 kWh in each billing period for every kWh that the Participant exported to the grid. A Participant is not entitled to claim monetary compensation from the distribution licensee for energy (kWh) that has been exported to the Licensee.
- Furthermore, the reconciliation procedures and conditions for perpetual roll-over of excess generation or net exports are to be done on a monthly basis, allowing the licensee to roll over net exports from previous monthly billing periods and use these to offset any future consumption bills of the Participant.

What are the key local advantages of the corporate PPA model which can benefit our clients?

As mentioned above, the most common structure for cPPAs in Zimbabwe is the Private Wire/Direct Wire structure whereby the generator /IPP sells electricity directly to a corporate buyer, rather than being notionally passed through the national power grid. This is advantageous in that the challenges experienced with involving the Utility can be somewhat avoided. Corporate buyers can also receive long-term certainty on the costs of such a project.

With respect to the Physical PPA/Wheeling PPA/Sleeved PPAs (or hybrid/substructure thereof), given land acquisition related challenges, the structure does not require land at or near the customer's site to build the project.

There's also an option for multiple corporates to jointly development the project together, either as generators, or as buyers.

What subsidies are applicable to the generation and sale of renewable energy?

Please refer to [Political and financial incentives](#).

Does your country implement a national support scheme with tradable green certificates (such as guarantees of origins)?

No.

Typical PPA terms and risk allocation

To the extent corporate PPAs are deployed, how are prices, terms and risks affected?

Topic	Details
Do prices tend to be floating or fixed?	Fixed
What term is typically agreed for the PPAs?	10-25 years
Are the PPAs take-or-pay or limited volume?	Take-or-pay
Are there any other typical risks?	Non-payment due to shortage of foreign currency, and currency inconvertibility

To the extent corporate PPAs are deployed, in whose favour will the risks typically be balanced?

Type of risk	Details
Volume risk	Where a PPA is based on fixed volume, the producer bears the risk. Conversely, with a pay-as-produced PPA, the offtaker bears the risk – however, this risk may be balanced through the use of a sleeving agreement with an electricity supplier which may then cover any shortfall.
Change in law	The PPA will usually include change in law provisions, as this will usually prevent the PPA from being frustrated in the event of a significant change in law. The risk of such a change in law is balanced against the party receiving the GoOs or renewable benefit. However, a change in law clause seeks to rebalance the original economic intentions of the parties.
Increase / reduction of benefits	Given the private nature of contracts, it's difficult to generalize on this. However, where the reduction of benefits is caused by a change in law, this may be covered by a change in law clause.

Market liberalisation (if applicable)**Credit risk**

Given the private nature of contracts, it's difficult to generalize on this. However, depending on the relative strength of the parties, one party may wish to seek performance security from a party with lower creditworthiness. As low creditworthiness most strongly affects the party obliged to pay, the risk is balanced against the party expecting payment.

Imbalance power risk

This is likely to be a risk for the corporate buyer as the buyer is often forced (under structures typically in use in Zimbabwe, see above) to procure any required power in excess of that generated by the IPP from the utility (see above).

Production profile risk

In our experience, it's often the buyer who bears this risk, as it may be forced (under structures in use in Zimbabwe, see above) to procure any required power in excess of that generated by the IPP from the utility.

Balancing

Does your country operate a balancing responsibility scheme?

No.

If your country operates a balancing responsibility scheme, who is the balancing authority and do the generator and offtaker typically undertake balancing themselves?

Not applicable.

Significant transactions

What significant transactions/deals have taken place in the last 12-18 months?

One of the major solar energy generators is Distributed Power Africa, a subsidiary of Econet Wireless, the largest telecommunications company in Zimbabwe. It reports that it has undertaken the following projects in the last 18 months:

- Client: Surrey Group
System: 118 kW Roof Mount
Location: Marondera, Zimbabwe
Description: This project was commissioned in September 2019 with an installation of a roof mount PV solution. Their solar plant is grid tied with DG integration and powers the abattoir's processing plant.
- Client: Schweppes Willowvale
System: 1 MW Roof Mount
Location: Harare, Zimbabwe
Description: This project was commissioned in November 2019 at Schweppe's Willowvale plant. The system is engineered with over 2,000 panels and is hybrid with diesel generator integration to ensure 100% power up time. The plant is custom built to generate electricity to improve operational efficiencies in the manufacturing processes.
- Client: Luxaflor Roses Farm
System: 118 kW Ground Mount
Location: Mazoe, Zimbabwe
Description: This plant was commissioned in February 2020 with a grid tied PV solution, with diesel generator and battery backup. This

plant powers the flower grading process plant, irrigation equipment, cold storage rooms and Greenhouse equipment, and is custom built to generate a power saving of 30% on blended costs, while maximizing on daytime sunlight.

- Client: Tanganda
System: 1.8 MW Ground Mount
Location: Chipinge, Zimbabwe
Description: The solar plant was commissioned in October 2020 at the Ratelshoek estate. The system is generating electricity to power the tea processing plant and irrigation equipment. At commissioning, the plant was the largest PV plant built for self-consumption in the C & I sector in Zimbabwe.
- Econet Willowvale
System: 466 kW Roof Mount
Location: Harare, Zimbabwe
Description: Commissioned in April 2019, this was the 15th installation in the first two years of construction. The grid-tied system was then the largest Carport and Rooftop mount C & I solution in sub-Saharan Africa outside of SA. With an estimated 780 MWh in annual energy production, the plant is expected to reduce site's carbon footprint by 285,000 kg every year.
- UNESCO
System: 50 kW Carport Mount
Location: Harare, Zimbabwe
Description: This hybrid solar solution was constructed at UNESCO (United Nations Educational, Scientific and Cultural Organization) Regional Office for Southern Africa in June 2020. The solar system is designed to produce 89 MWh of energy annually and comes with 33 Wh of battery backup to ensure business continuity.

Other projects by other IPPs include:

- Developer: Solgas
System : 5 MW Solar Plant
Location: Cross Mabale, Hwange

Description:

- Phase 1: 5 MW AC ground fixed mount solar plant in Cross Mabale, Hwange
- Fully licensed by the Zimbabwe Energy Regulatory Authority (ZERA license number GC0046/2016)
- 100 hectares of land secured for future expansion to a 50 MW solar plant
- Grid Impact Assessment successfully completed with ZETDC
- Transmission interconnection agreement signed with ZETDC
- Environmental Assessment Studies completed and filed
- 25 Year Power Purchase Agreement secured with Zimbabwe Electricity Transmission & Distribution Company
- Granted National Project Status by Ministry of Finance and Economic Development Zimbabwe
- Granted Prescribed Asset Status by Ministry of Finance and Economic Development Zimbabwe
- Tariff Agreed
- Phase 1: Funding of USD7.5 million secured
- Engineering, Procurement and Construction in progress
- Phase 2: Fund Raise in Progress

What transactions/deals are anticipated to come to market in the next 12-18 months?

No public information on this.

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