



Projects & Infrastructure

Power Guide:
Ethiopia

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Introduction

This Power Guide has been prepared by ALN Ethiopia| Mesfin Tafesse & Associates (**ALN Ethiopia**) and provides an overview of Ethiopia's power sector. The aim of this guide is to provide

useful information to investors and stakeholders on legal aspects of the industry, such as applicable regulatory standards and tariffs.

Governing Law



- The Constitution of Federal Democratic Republic of Ethiopia, 1995.

• Statutes:

- Energy Proclamation No. 810/2013
- Energy Proclamation (Amendment) No. 1085/2018
- The Council of Ministers Energy Regulation No. 447/2019
- Issuance of License for Electricity Supply in the National Grid EEA Directive No. 007/2020
- Ethiopian Electric Power Establishment Regulation No. 302/2013 (381/2016 as amended)
- Ethiopian Electric Utility Establishment Regulation No. 303/2013 (382/2016 as amended)
- Petroleum Operations Proclamation No. 533/2007
- Public Private Partnership Proclamation No. 1076/2018
- Public Private Partnership (Amendment) Proclamation No. 1283/2023
- Public Private Partnership Directive No. 242/2021
- Public Procurement and Property Administration Proclamation No. 649/2009
- **Other laws, regulations, and policies, including:**
 - Urban Lands Lease Holding Proclamation No. 721/2011
 - A Proclamation to Determine Expropriation of Land Holdings for Public Purpose, Payments of Compensation and Resettlement No. 1161/2019
 - Environmental Impact Assessment Proclamation No. 299/2002

- Federal Income Tax Proclamation No. 979/2016
- Federal Income Tax Regulation No. 410/2017
- Petroleum and Energy Authority Establishment Council of Ministers Regulation
- Investment Proclamation No. 1180/2020
- Investment Regulation No. 474/2020
- Geothermal Resource Development Proclamation No. 981/2016
- Geothermal Resource Development Regulation No. 453/2019
- Directive to provide for Registration and Processing of Geothermal Operation License Application 2019
- Regulation of Petroleum Operations Proclamation No. 295/1986
- Ethiopian Energy Authority Directive No. 836/2021
- Protection of Telecommunication and Electric Power Network Proclamation No. 464/2005
- Public Enterprise Proclamation No. 25/1992
- Definition of Powers and Duties of the Executive Organs Proclamation No. 1263/2021
- Renewable Energy Feed-in Tariff Directive

• Policy

- Rural Electrification Master Plan, 2017
- National Electrification Program 2.0, 2020
- Ethiopian National Energy Plan
- MoF Public Private Partnership Policy 2017
- MoF General and Sector Specific Implementation Guidelines for PPP
- Ethiopian Government 10 (Ten) Years Development Plan (2021-2023)
- Ministry of Water and Energy (MoWE) Ten Years (2013- 2022) Strategic Plan

Institutional Framework

The Ministry of Water, Irrigation and Energy (MoWIE)



The Ministry is responsible for formulating and implementing policies and strategies related to the water, irrigation, and energy sectors. It oversees the EEP, EEU, EPSE, Ethiopian Energy Authority, and other related institutions.

Ethiopian Petroleum and Energy Authority (PEA)



The Authority is responsible for regulating the energy sector, including licensing, and overseeing energy projects and activities, promoting renewable energy, and ensuring compliance with sector regulations.

Ethiopian Petroleum Supply Enterprise (EPSE)



EPSE is the state-owned enterprise responsible for importing, storing, distributing, and marketing petroleum and petroleum products in Ethiopia.

Ethiopian Electric Power (EEP)



The state-owned utility responsible for the generation, transmission, and distribution of electric power in Ethiopia. EEP implements power projects and operates the national electric grid.

Ethiopian Electric Utility (EEU)



A subsidiary of EEP, EEU is responsible for the distribution and retail of electricity to end consumers.

Public Private Partnership Board (the "Board")




The Board is mandated to approve a PPP project structure including any feasibility study related to the project and recommend specific tax or other incentives for a particular project to the relevant authority.

Ministry of Finance Public Private Partnership Directorate



The Directorate promotes PPP conceptualization, identifies, and categorizes projects; makes recommendations; establishes policies and guidelines; coordinates activities; and ensures compliance with laws.



Power Purchase Agreement (PPA) Between the Independent Power Producer (IPP) and the Off-taker (EEP)

- The operating term of a PPA is typically 20 – 30 years.
- The IPP shall sign a PPA and Implementation Agreement (IA) with EEP and Ministry of Finance .
- IAs may provide guarantees to IPPs such as tax holidays, exemptions from custom (import) duties and generation payment guarantees by the government in case of default by EEP.
- Tariff structures may include capacity charges (based on plant availability) and energy charges (based on net electrical output delivered).
- PPA provisions, including payment terms and tariff structures, are subject to negotiation between the IPP and EEP.
- Tariffs are specified in the PPA and determined through a competitive bidding process or direct negotiation between IPP and EEP. The Energy Proclamation and regulation does not prohibit tariff arrangements as agreed between the parties. PEA while reviewing the PPA will also review the tariff clause.
- The PPA may include liquidity support mechanisms, relief events, financial protections, decreased costs, default and termination, confidentiality, transfer, and assignment.
- The PPA and IA can provide provisions relating to the deemed generated energy payment mode, whether it is on or after the commercial operation date and including the calculation.
- PPA may include provisions on dispute resolution mechanisms, waiver of sovereignty immunity and the governing laws.
- The PPA may include provisions for adjustments to the tariff in case of political events, changes in law, or changes in tax.
- Payments to the IPP are typically made in local currency.
- The PPA may include provisions for liquidated damages in the case of delays or failure to meet operational thresholds.

Local Shareholding and Local Content Requirement

- Currently, there are no specific local shareholding requirements for power projects in Ethiopia. However, the investment law and regulations imposes general requirements for local participation or joint ventures in certain sectors.
- Foreign investors are allowed to engage in the generation of electricity, however, transmission and distribution of electrical energy through the integrated national grid system is reserved for domestic investors.
- The PPP Proclamation No.1076/2018 provides that the PPP project company may have a public entity as a minority shareholder.

Feed-in Tariffs (FIT) Policy

- The FIT Policy provides for standardized tariffs for renewable energy projects.
- FIT rates vary depending on the renewable energy source and project size.
- The FIT Policy promotes small-scale renewable projects and provides incentives for their development.
- FIT rates are subject to periodic revisions and adjustments by the EEU.

Payments to the Off-taker

- Parties to a PPA contract are allowed to fix the cost of damages, in the form of a penalty, which will be due when a party fails to discharge its obligations or to discharge them completely and in due time and it includes liquated damages.

Credit Enhancements

- The Ethiopian government may provide credit enhancements, such as guarantees or letters of support, to mitigate political risks and termination compensation.
- The government also collaborates with international organizations and agencies to provide partial risk guarantees and political risk insurance for power projects.

Key Approvals/Licenses Required to be Procured.

- PPA approval is required by the PEA.
- Electricity Generation License issued by the PEA.
- Environmental Impact Assessment (EIA) approval issued by the Ethiopian Environmental Protection Authority.
- Other permits and licenses may be required depending on the specific project and its characteristics.

Governing Law and Dispute Resolution

- PPAs and related agreements are generally governed by Ethiopian law.
- Ethiopia is a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention).
- Disputes may be resolved through negotiation, mediation, arbitration, or court proceedings in accordance with applicable Ethiopian laws and international conventions.

Power Sector Experience



IFC: Acting for IFC (appointed as the transaction advisor to the EEP) in connection with the development, financing and operation of a wind power project in Ethiopia.



Berkeley Energy Renewables: Acting for Berkeley Energy Renewables in connection with the due diligence on the USD 4 billion, 1000mw Corbetti Geothermal Power Project in Ethiopia.



IFC: Acting for IFC (appointed as the transaction advisor to the EEP) for the development, financing and operation of two rounds of a Solar Power Project (250MW and 750MW) of solar electric power.



AMEA Power: Acting for AMEA Power in connection with the 100MW wind electric power IPP Project in Ethiopia.



China Electrical Technologies: Acting for China Electrical Technologies in connection with the USD 1.8 Billion electricity transmission and distribution power PPP project (part of the Belt & Road Initiative).



Mercy Corps Ethiopia: Acting for Mercy Corps Ethiopia in connection with a study to assess the viability of electrifying the three refugee camps in Ethiopia through PV-solar powered mini-grids.



Fortescue Future Industries (FFI): Acting for FFI in connection with the Framework Agreements (for the investment in the manufacture of green hydrogen and green ammonia using renewable resources) with the Government of Ethiopia, for the development of geothermal, hydro, solar and wind power projects.



GIZ-ENDEV: Acting for GIZ-ENDEV in connection with the feasibility study for mini-grid solutions to industrial parks






Enel Green Power: Acting for Enel Green Power. In connection with the bid floated by the Ethiopian Electric Power for the development, financing and operation of a 100MW solar electric power in Metehara, Oromia Regional State.

Key Contacts






Mesfin Tafesse | Principal Attorney

 Addis Ababa, Ethiopia
 mtafesse@mtalawoffice.com
 +251 11 6 672341 or +251 11 6 672271



Haymanot Belay | Senior Associate

 Addis Ababa, Ethiopia
 hbelay@mtalawoffice.com
 +251 11 6 672341 or +251 11 6 672271

About ALN Ethiopia

ALN Ethiopia is the leading law office in Ethiopia and its range of practice areas cuts across M&A, banking and finance, power and energy, oil and gas, taxation, mining, construction and manufacturing industry, intellectual property, hospitality, IT, telecom, and civil society law.

Our team has substantial experience in diversified areas of Ethiopian law and offering a range of services including, high level advisory services, preparation of legal due diligence opinions relating to various legal transactions, conducting business negotiations on behalf of clients, drafting of investment and corporate agreements, drafting and reviewing loan and security documents,

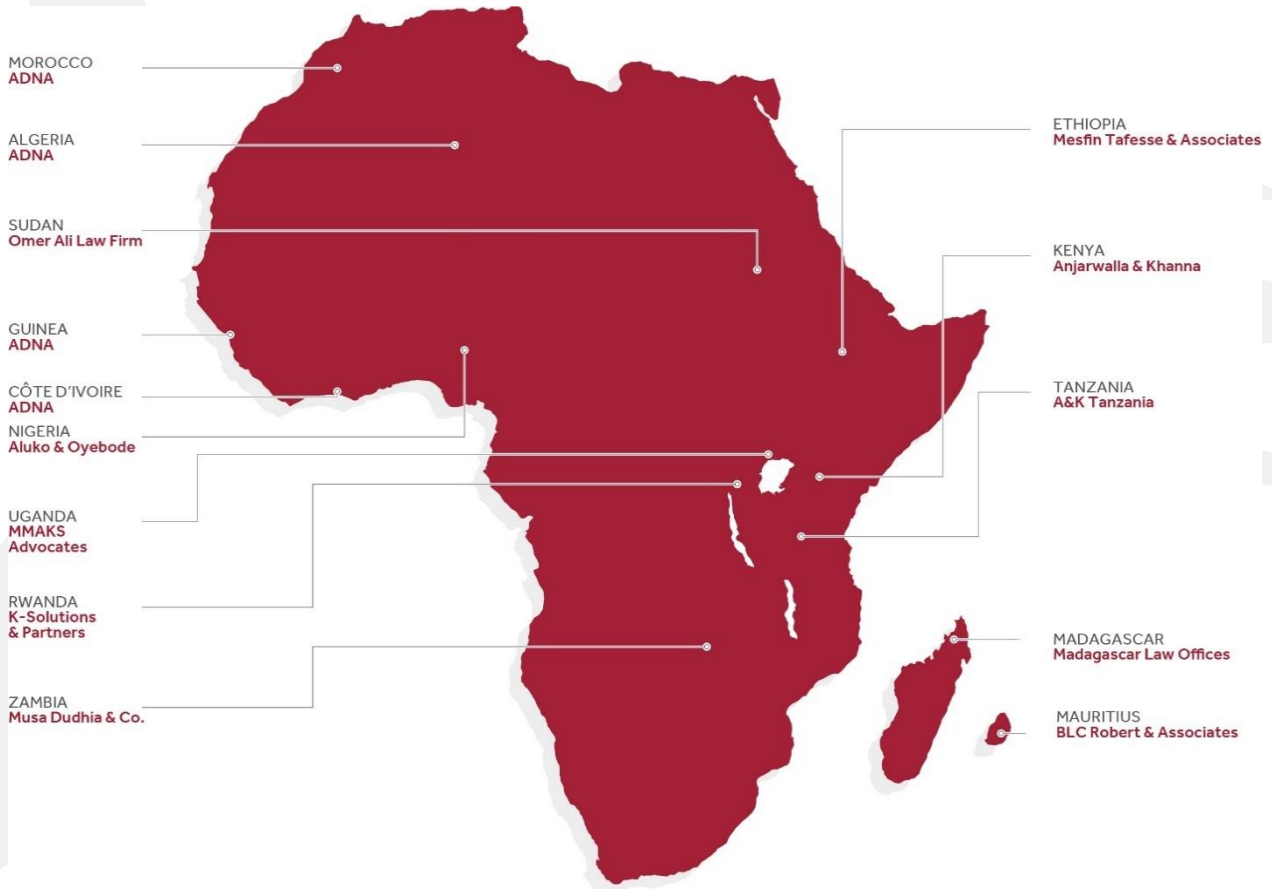
facilitating local presence and representation of clients in judicial and arbitral forums.

We act for national and multinational corporations and investors from around the globe. Our vision is to be a legal service provider of first choice in Ethiopia, capable of providing world-class legal services, upheld by values of integrity, teamwork, and excellence.

We are a member of the African Legal Network (ALN), a premier alliance of top-tier independent law firms in Africa. We have been consistently ranked as a Band 1 Legal Service provider in Ethiopia by Chambers and Partners for the last twelve years and a Tier 1 law office in Ethiopia by Legal500.



About ALN



ALN is an integrated alliance of the preeminent full-service corporate law firms in 14 African countries: Algeria, Côte d’Ivoire, Ethiopia, Guinea, Kenya, Madagascar, Mauritius, Morocco, Nigeria, Rwanda, Sudan, Tanzania, Uganda and Zambia. ALN also has a regional office in Dubai, UAE, which serves as a gateway to the Gulf region and beyond.

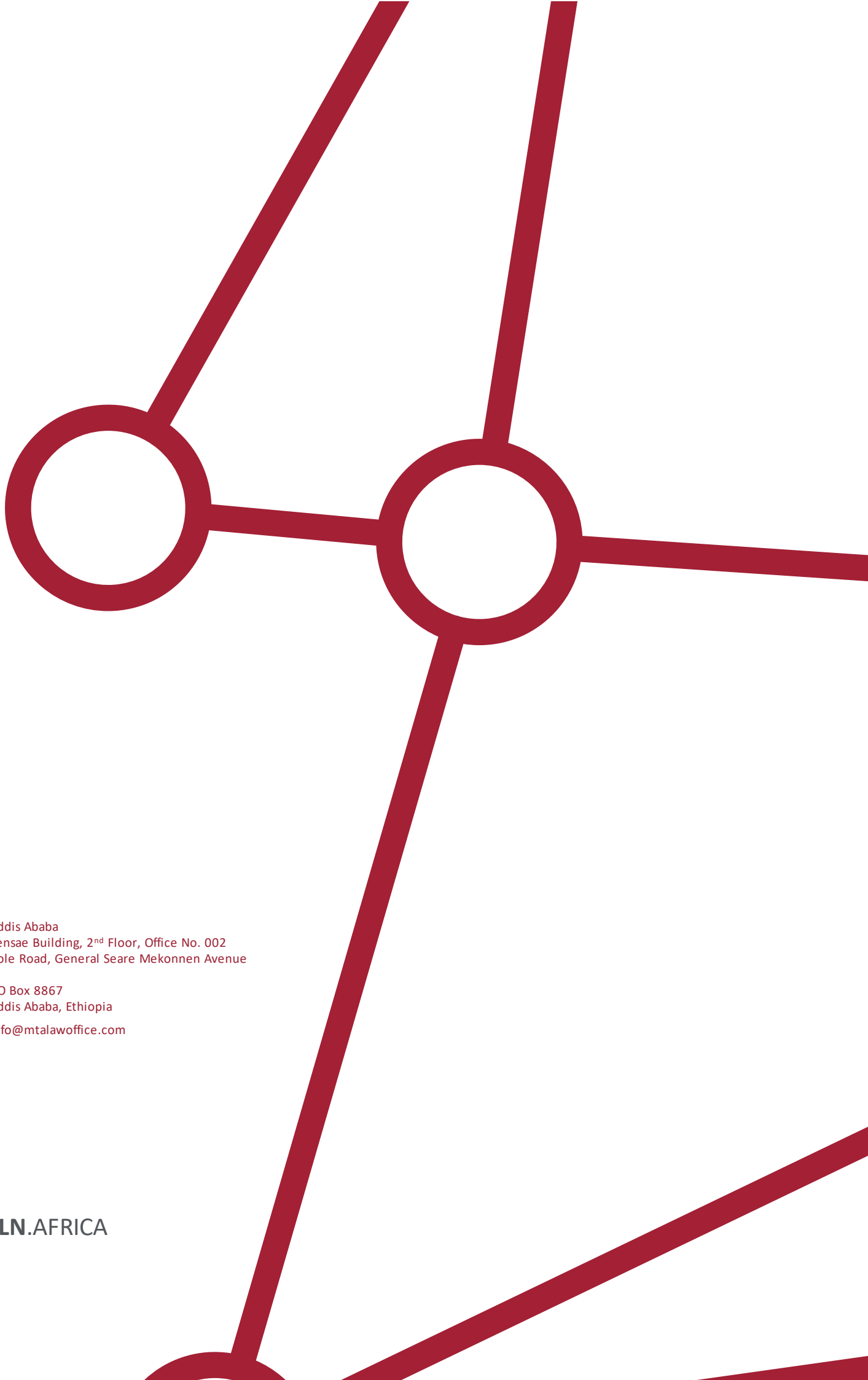
Vision

ALN seamlessly connects the African continent. It brings its global expertise, continental reach and deep local know-how to help its clients navigate the multitude of opportunities and risks in Africa, holistically combining legal, tax, regulatory and commercial advice.

Mission

ALN is dedicated to its clients’ success. ALN achieves this by providing world class legal, tax and regulatory advice in a commercial context. ALN’s lawyers are aware of the trends and events shaping the continent, deeply networked and respected in their communities as thought leaders and opinion shapers. ALN’s lawyers have a Pan African mindset, are down to earth, pragmatic, responsive, innovative and relentlessly determined.





Addis Ababa
Tensae Building, 2nd Floor, Office No. 002
Bole Road, General Seare Mekonnen Avenue

PO Box 8867
Addis Ababa, Ethiopia
info@mtalawoffice.com

ALN.AFRICA