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Mozambique

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Despite Mozambique's wealth and diversity in natural resources, the country remains nonetheless significantly dependent on hydro resources for energy generation. Recently, however, Mozambique has diversified its primary sources of power generation by taking advantage of the recent discovery of natural gas in the Rovuma Basin and promoted the development of gas-to-power projects, as well as setting ambitious goals for the implementation of renewable projects in the coming years.

Overview of the current energy mix, and the place in the market of different energy sources

Hydro

Mozambique's power generation remains highly dependent on hydroelectric power plants, this source of energy representing over 90% of total primary energy supply.

The Cahora Bassa hydroelectric power plant ("**HCB**"), located in the central region of Mozambique (at the Zambezi River) with a capacity of 2,075 MW is the largest hydroplant in the country. Other major hydroelectric power plants, such as the Chicamba and Mavuzi power plants (96 MW) and Corumane powerplant, in Maputo province (16.6 MW) also contribute to the significant share of hydro generation referred to above.

Natural gas

One of the biggest developments in the last decade in terms of energy source is the implementation of large-sized natural gas powerplants.

Indeed, the production of natural gas in Mozambique has grown by 5.3% per year on average since 2004. Such energy is also exported to neighbouring countries, especially to South Africa with whom Mozambique has entered into energy supply agreements.

Mozambique has implemented three principal natural gas power plants pursuant to a public-private partnership model which sell all of the energy generated to Eletricidade de Moçambique ("**EDM**"): the thermal powerplant of Ressano Garcia ("**CTRG**") (175 MW); the thermal powerplant of Gigawatt (120 MW); and the thermal powerplant of Kuvaninga (40 MW).

The Temane Thermal Power Plant with an installed capacity of 400 MW is now expected to be constructed, as financing for the transmission line project from Temane to Maputo has been secured. In addition, and pursuant to a tender launched by Government of Mozambique for the award of gas in the Rovuma Basin, a 250 MW CCGT is also expected to be developed near Nacala.

In light of the above, despite hydropower's historical dominance, the trend is clearly changing and natural gas power plants are increasingly gaining relevance in the generation mix.

Renewables

With the lack of grid infrastructures, domestic consumption in most rural areas is mainly based on the burning of biomass (charcoal and fuelwood). This circumstance is naturally seen as unsustainable from an environmental angle and is pushing the Government to further the development of off-grid renewable projects that may respond to decentralised consumption demand.

On solar capacity, Mozambique has grown from 1 MW in 2011 to 15 MW in 2017, but this still represents a rather small contribution to the overall supply, especially considering the country's high potential on solar radiation. Two photovoltaic power plants of 41 MW each are being implemented – the PV power plant of Mocuba and the PV power plant of Metoro.

As far as wind generation is concerned, EDM and some promoters have initiated viability studies in several locations with renewable energy potential, namely three windfarms in Namaacha, Manhiça and Cahora Bassa (each with 30 MW).

Changes in the energy situation in the last 12 months which are likely to have an impact on future direction or policy

Gas-to-power projects

Although the Mozambique energy landscape has been swiftly changing in the past decade, the recent discovery of a reserve of 127,400 of cubic metres of natural gas in the Rovuma Basin in the Province of Cabo Delgado will undoubtedly be the cornerstone of the energy future in Mozambique. This is considered to be the fourth-largest natural gas reserve in the world and a major opportunity for exporting liquefied natural gas and installing and exploring large-scale power plants in Mozambique.

The Government of Mozambique has launched a tender for the allocation of gas from the Rovuma Basin and approved the implementation of a 250 MW gas-fired power plant and related infrastructure.

Renewable projects

The Mozambican Government – through the Fundo Nacional de Energia ("**FUNAE**") – recently published the Renewable Energy Atlas of Mozambique (the "**ATLAS**") to identify the opportunities for the development of renewable projects in the country.

The ATLAS shows an overall potential for renewable resources of 23,026 GW driven by solar sources (23,000 GW), followed by hydro (19 GW), wind (5 GW), biomass (2 GW) and geothermal (0.1 GW). The ATLAS identified 189 locations for grid-connected power plants with a total capacity of 599 MW. This potential offers opportunities for both grid-connected and rural electrification (microgrid or off-grid) projects and will lead to a major development in renewable energy projects.

Developments in government policy/strategy/approach

Government of Mozambique and EDM Master Plan 2018–2043

In January 2019, the Mozambican Government approved an "Integrated Electricity Master Plan 2018–2043" with the purpose of increasing the country's capacity to generate, consume and export electricity.

In accordance with the Government of Mozambique, in order to respond to the demand for energy, the country would require the installation of approximately 100 MW of new

capacity per year. In this respect, it is worth noting that the Government of Mozambique and EDM are establishing several partnerships for the purposes of developing sustainable projects.

At the same time, EDM published its strategy for the years 2018–2028, aiming to support and lead the initiative of the government. In its strategic plan, EDM highlighted the need to integrate renewables with the national grid and develop commercial off-grid systems for remote areas.

The plan envisages an energy demand of approximately 8,000 MW (10 times higher than current demand). To respond to such increase in demand, a significant increase of installed capacity is foreseen, with diversified sources: (i) 4,300 of hydro; (ii) 1,350 MW of coal; (iii) 530 MW of solar; (iv) 150 MW of wind; and (v) 8,500 MW of natural gas.

Despite the above, the country is significantly deficient in electrification infrastructure, for which investment in transmission and distribution networks is essential. The Government plans to construct 400 KV transmission lines for connecting the south, centre and north of the country, especially in order to complete the transmission line between Cataxa-Tete and Maputo. According to the Government's plan, the above would allow universal energy access to be achieved by 2030.

In August 2019, several financing contracts were executed between the Government of Mozambique and foreign institutions (such as the Government of Norway, the World Bank, the African Development Bank, the Islamic Development Bank, the Organisation of Petroleum Exporting Countries Fund and the Southern African Development Bank) for the construction of a 563-kilometre electricity transmission line between Temane and Maputo. The construction is scheduled to start in the first half of 2020 and due for completion by the end of 2023.

According to the Government strategy, the construction of the Temane-Maputo line is the first phase in creating the "backbone" of the country, which will allow the development of integrated electrical infrastructures and therefore electrification of Mozambique and Southern Africa.

Developments in legislation or regulation

Overview of the applicable framework in the energy sector (in particular, for the implementation of projects in Mozambique)

The Electricity Law (Law 21/1997 of 1 October) was approved in 1997 and governs the licensing of power projects and power-related activities production, transmission, distribution, trading and import and export of electricity in Mozambique. It aimed to open the Energy Sector to private investors through the establishment of concession contracts, to be executed between the Project Company and the Government of Mozambique, which is represented by the Ministry of Mineral Resources and Energy ("MIREME"), as well as the execution of PPAs (Power Purchase Agreements) with the EDM.

The Electricity Law provides that projects related to the generation, transportation, distribution and trading of electric power as well as the construction, operation and management of electrical installations (other than generation of electric power for own consumption) are subject to a concession to be awarded through a competitive public tender. Concessions are limited to 50 years for hydropower projects and 25 years for all other technologies.

Considering that most projects are built under the PPP model, projects in the Energy Sector

shall also be governed by the PPP Law (Law No 15/2011 of 10 August).

On the other hand, as regards generation licensing, we would like to highlight that the framework is demarcated by several separate laws and decrees, as follows:

(i) the Regulation on the Authority and Procedures for the Distribution and Trading of Electric Power (Decree 8/2000 of 20 April);

(ii) the Regulations on the Rules for the Construction and Maintenance of Electrical Installations (Decree 42/2005 of 29 November);

(iii) the Regulations on Licences for the Establishment and Operation of Electrical Installations (Decree 28/2007 of 22 October), which foresees the procedure for obtaining generation licences; and

(iv) the Electricity Facilities Licensing Regulation (Decree 10/2016 of 25 April), which establishes the licensing procedures that must be followed for each of the above activities. The Electricity Facilities Licensing Regulation divides the type of 'facilities' that are involved in electricity generation, transmission and distribution into ten categories, with each category having to follow a particular licensing procedure.

Apart from the Energy Sector-specific laws, please bear in mind that the implementation of energy projects in Mozambique is also highly dependent on title for the use of land. Land Law (Law 19/97 of 1 October) foresees that land, and its associate resources, are owned by the State and cannot be sold or otherwise disposed of or encumbered/mortgaged. The Land Law, however, grants private persons and entities the right to use and enjoy the land known as "*Direito do Uso e Aproveitamento da Terra*" ("**DUAT**").

Lastly, it is worth mentioning that a foreign investor may make an application for an 'investment certificate' for a particular project which will grant it certain incentives and benefits. However, for such a project to be eligible should ensure a foreign investment of a minimum of MT 2,500,000 (USD 40,170) and the application for such investment certificate shall be made by a company with a registered office or registered branch in Mozambique.

Relevant authorities

MIREME is the key entity within the Government of Mozambique responsible for the energy sector and thus responsible for the analysis, preparation, formulation and implementation of energy policies, as well as for promoting and approving projects of electric power supply. The National Directorate of Energy ("**DNE**") is the executive body within MIREME and a key player in all phases of the project, notably, during the negotiation of the Project Agreements as well as for licensing purposes and others. DNE is responsible for implementing and executing the competences of MIREME in the electric power sector, with the exception of the setting of tariffs and rural electrification which are under the jurisdiction of ARENE (see below) and FUNAE respectively.

The Autoridade Reguladora da Energia ("**ARENE**") – whose organic statute has been approved in 2019 – is the entity responsible to instruct and monitor the public tender procedures for the award of concessions for production, transmission, distribution and sale of electricity and for the approval of regulated tariffs.

Lastly, Electricidade de Mocambique ("**EDM**") is a state-owned and vertically integrated utility that is responsible for the generation, procurement, transmission, distribution and sale of electricity. EDM is the offtaker of power projects developed in the country.

Review of regulatory framework

The regulatory framework briefly described above is under revision, with the support of the United States Agency for International Development ("**USAID**"). In accordance with the information publicly available, the revision of the Electricity Law aims to improve market conditions in the country, providing adequate legal guarantees for investors in the energy sector. The current Electricity Law regulates mainly utility-scale projects and in order to reach the objectives of the EDM's Integrated Master Plan, the new law seeks to simplify authorisation procedures for mini-grid projects, which are seen as a priority to increase electricity access in remote areas.

According to the Government's projects, the new regulatory framework also aims to simplify the permitting and licensing framework, by establishing three different kinds of authorisations: concession, licence and simplified licence. The permits will vary according to the size of the project and the type of natural resources involved.

Lastly, the role of EDM is perceived by some investors as restricting the private initiative and investment and therefore, the new regulatory framework is also expected to enable participation between both EDM and private investors.

Judicial decisions, court judgments, results of public enquiries

To be best of our knowledge there is no available case law, judicial decisions, court judgments or results of public enquiries in Mozambique on the interpretation and application of the relevant legislation of the Energy Sector.

Mozambique often refers to Portuguese court decisions, but in the Energy Sector, no court decisions have (to be best of our knowledge) been issued in Mozambique.

Major events or developments

Foreign investment and partnerships with European and international agencies for the promotion of new power projects are increasing year-on-year, however some programmes under development are more likely to impact legislation and the creation of new projects, as better detailed below.

PROLER programme

The Project to Promote Auctions for Renewable Energies ("**PROLER**") was launched by the European Union, through the EU Trust Fund for Africa together with Agence Française du Développement ("**AFD**") and EDM. This project, which aims to identify areas to be electrified, launches a public tender to award contractors based on technical and financial criteria, and assists EDM in electrification development, as well as providing financial and technical support to EDM. So far, the PROLER programme has launched four tenders for the implementation and development of three solar and one wind project, of 30 MW each, by 2021.

GET FiT – Global energy transfer feed-in tariff / REFiT Programmes

KfW Development Bank (German Government-owned development bank), along with other stakeholders, has developed the Global Energy Transfer Feed in Tariff ("**GET FiT**") Programme. The GET FiT Programme aims to fast-track the development of smaller renewable energy generation projects through a comprehensive set of tools, including tariff viability gap funding, targeted technical assistance, risk mitigation against off-taker risk, and renewable grid integration support. The same programme is active in other Sub-Saharan

African countries, such as Uganda (where it has successfully promoted a combined portfolio of 170 MW of smaller renewable energy generation projects), Zambia, Malawi and Namibia.

Similarly, the Government of the Republic of Mozambique, represented by MIREME, introduced a Renewable Energy Feed-in Tariff ("**REFiT**") Regulation in 2014, in order to promote private investments in the Mozambican energy sector. However, this Regulation was valid for a period of three years only and the administrative procedures were never approved, therefore, no investment was done under such programme.

Further to such developments, KfW and MIREME initiated discussions in 2014 with a view to develop a GET FiT Programme for Mozambique in support of GoM's REFiT Regulation.

In April 2019, KfW assessed the implementation of the programme and set forth that the same is to be launched in the beginning of 2020. The viability study underlying this programme evidences the focus of the GET FiT Programme for the development of 130 MW of projects of renewable energy generation, i.e., photovoltaic projects with storage and small hydroelectric power plants, although, at a later stage, wind and biomass projects may be considered. Also, the results of this study showed that there is a potential to promote Independent Power Producers ("**IPPs**") in renewable energy in Mozambique.

Proposals for changes in laws or regulations

As mentioned above, the revision of the regulatory framework – more specifically, the Electricity Law – is currently under way. The main goal is to ensure that the applicable framework is consistent and adequate for the promotion of new energy projects, in accordance with the Government's Integrated Plan. For that purpose, the revision of the regulatory framework aims to simplify the regulatory regime and licensing procedure and clarify the attributions of several government and administrative entities in the sector.

In an effort to promote renewable projects, the new regulatory framework is also expected to create specific regulation for power projects using renewable energy resources, including a simplified regime for small-scale and off-grid projects, and a grid code for power feed-in from renewable energy sources.

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