



## Senegalese Regulators Make Progress towards Diversifying the Energy Market and Creating a Healthy Investment Climate



**May 2021** – With support from the United States Agency for International Development (USAID) and Power Africa, the National Association of Regulatory Utility Commissioners (NARUC) engages in a regulatory energy partnership with Senegal’s Commission de Régulation du Secteur de l’Electricité (CRSE) as a means of strengthening its technical capabilities to regulate electricity and facilitate information sharing, consensus-building, and collaboration between energy sector stakeholders.

Under the partnership, NARUC has provided technical assistance to the CRSE to support its efforts to employ more diverse power generation sources and meet ambitious energy sector goals. As a result of this support, the CRSE is working to increase Senegal’s generation capacity by gaining the knowledge needed to further integrate natural gas into the energy mix. Additionally, the CRSE is taking steps to create an enabling environment for investment in the power sector through enhancing transparency and efficiency within the power procurement process.

### Working to Meet Goals Set by Plan Sénégal Emergent

Energy sector development is a key component of the Plan Sénégal Emergent (PSE), a national plan established to achieve structural transformation of the economy and reach middle-income status by 2035.<sup>1</sup> Alongside goals related to sectors such as health and infrastructure, some of the plan’s key energy objectives include lowering generation costs by reducing dependence on imported fuels and increasing access to electricity.<sup>2</sup>

However, much remains to be done. Currently, electricity is generated primarily by fuel imports, and while electricity access has reached 90% in urban areas it is still limited to roughly 44% in rural areas.<sup>3</sup> Moreover, Senegal has high electricity prices that are set at approximately 30% to 40% below cost recovery<sup>4</sup> as well as one of the highest production costs in sub-Saharan Africa – about \$0.30 a kilowatt-hour (kWh). To enact successful reforms and ensure affordable and consistent access to energy throughout the nation, accelerating access to diverse generation sources is crucial.

Senegal is rich in natural resources. According to the World Bank, by 2025, its installed capacity should include a minimum of 22% renewable energy resources (including solar, wind and hydroelectric power), 64% gas, and 8% coal.<sup>5</sup> In order to use these resources as a means of furthering economic and social development, the Government of Senegal adopted a “Gas to power” strategy in 2018. This strategy defines the areas of intervention for the development of electricity production from natural gas, and provides a legal, regulatory, and institutional framework for the midstream and downstream gas sector.

In response, NARUC is sharing international best practices to ensure the smooth implementation and integration of natural gas into the energy portfolio. Recently, NARUC recruited four French-speaking regulatory experts from both Canada and France to engage with CRSE staff, Senelec,<sup>6</sup> and the Ministry of Petroleum and Energy on pipeline and regulatory developments. As a result, the CRSE learned about key regulatory frameworks and tools such as collecting accurate and precise data, developing safety protocols, and tariff setting.

## Achieving a More Transparent Power Procurement Process

The CRSE is also making great strides in attracting private investment and increasing energy affordability by adopting measures to structure the power procurement process in a more transparent manner. Through exchanging best practices with NARUC experts on competitive bidding processes and procedures, the CRSE has gained clarity on the roles and responsibilities of each stakeholder, resulting in increased collaboration and efficiency throughout the procurement process.

In the late 1990s, Senegal became one of the first countries in Sub-Saharan Africa to introduce private sector participation in the electricity industry<sup>7</sup> through independent power producers (IPPs). An IPP is a non-public utility company that invests in or owns power generation facilities,<sup>8</sup> and operates through power purchase agreements (PPAs) with a buyer, which is usually a state-owned electricity utility. In order to secure a PPA, IPPs must participate in a procurement process, which is frequently done through the use of competitive bids. A key benefit of competitive bids is that they force all potential electricity suppliers to bid against one another publicly and transparently, thereby lowering energy prices and giving investors assurance that energy projects will be awarded using fair contracting practices.<sup>9</sup>

The CRSE is mandated to facilitate the procurement process in Senegal. However, due to their limited experience in this capacity, Senelec currently manages the process and is the single buyer for IPPs. This has produced some miscommunication, as Senelec primarily negotiates with MEDER and the CRSE only has an observer role in the tender process. As a result, it is not always involved in the discussions, strategic planning, and/or overall coordination. Since coherent and consistent procurement policies require that all stakeholders involved in the decision-making and oversight of the procurement process share aligned objectives, this breakdown in communication has resulted in significant delays in project development and a lack of diversity in supply.

In order to shorten the procurement timeline and achieve greater transparency, the CRSE has leveraged NARUC assistance to boost its capacity to review and analyze both PPAs and competitive bids. Through gaining a deeper understanding of these processes, the CRSE will be better equipped to work collaboratively with other stakeholders to ensure that all contractual conditions are in line with energy sector goals, add megawatts to the grid, increase the likelihood of success for future projects, and provide greater confidence to investors through creating an enabling environment for private sector investment in generation projects.

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<sup>1</sup> "Senegal Energy Outlook." IEA. <https://www.iea.org/articles/senegal-energy-outlook>

<sup>2</sup> "Senegal Power Africa Fact Sheet." USAID. <https://www.usaid.gov/powerafrica/senegal>

<sup>3</sup> Idem.

<sup>4</sup> "Making Senegal a Hub for West Africa." International Monetary Fund. <https://www.imf.org/external/pubs/ft/dp/2015/afr1501.pdf>

<sup>5</sup> "Project to Promote a Shift towards Lower Carbon Power Generation in Senegal (P169744)." The World Bank.

<http://documents1.worldbank.org/curated/en/581421558458547633/pdf/Concept-Project-Information-Documents-Project-to-Promote-a-Shift-towards-Lower-Carbon-Power-Generation-in-Senegal-P169744.pdf>

<sup>6</sup> Senelec is the national electricity company of Senegal.

<sup>7</sup> "Energy sector analysis Senegal: Petroleum & gas." Netherlands Enterprise Agency. <https://www.rvo.nl/sites/default/files/2017/09/Report-Energy-sector-Senegal.pdf>

<sup>8</sup> "IPP." 2belst Consulting. <https://2belstconsulting.com/ipp/>

<sup>9</sup> "Competitive Energy Procurement." USAID. <https://www.usaid.gov/energy/procurement/auctions>