



# FIELDSTONE

## **PUBLIC-PRIVATE PARTNERSHIPS IN THE ENERGY SECTOR**

June 2009

# Agenda

- Introduction
- Fieldstone Overview
- Overview of South African Power Market
- Key Aspects to deal with
  - What is needed for successful PPPs
  - Why are IPPs in danger of failing in South Africa
  - What needs to be done?
- Conclusion



# INTRODUCTION

- PPPs have been used successfully internationally over the last 25 years to augment public service delivery in many service areas including energy;
- PPPs and IPPs have been remarkably successful in Africa despite adverse environment and conditions;
- PPPs have been used in many areas in South Africa such as roads and prisons, but with limited success in electricity
- The recent electricity crisis have highlighted the need for South Africa to have additional sources of supply
- Recent attempts to involve private power in SA has been spectacularly unsuccessful;
- The international and local investor community has become increasingly despondent about the seriousness of South Africa to attract private power investors

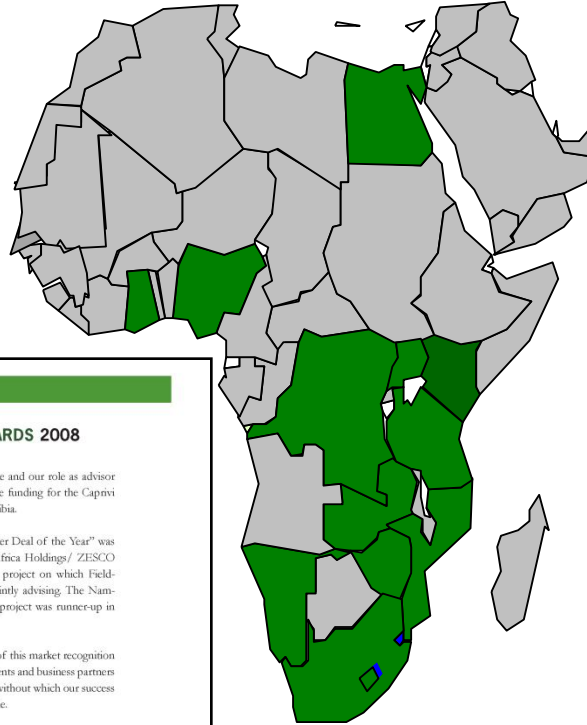
# FIELDSTONE OVERVIEW

## *Who we are...*

- Fieldstone is an independent investment banking boutique and was founded in 1990.
- The firm is 100% employee-owned, and has more than 40 professionals with principal offices in New York, London, Berlin, Hyderabad, Johannesburg and Kuala Lumpur.
- The firm is focused on the Energy & Infrastructure sectors.
- Fieldstone is able to execute complex domestic, international and cross-border transactions based on its broad market knowledge, structuring expertise and demonstrated access to international capital markets.
- Completed approximately US\$ 50 billion transactions globally.
- Additional information on the company is available on the company website [www.fpcg.com](http://www.fpcg.com).

# FIELDSTONE IN AFRICA

*Fieldstone in recognised as a Leader across the continent...*



- Congo Inga-Kinshasa Transmission Line
- Egypt Al-Ahram Beverages  
Sidi Krir
- Ghana Ansaldo / Mitsui Power Barge  
GECAD  
Kengen
- Kenya Kahora Bassa: Phases I & II
- Mozambique Beira-Mutare Pipeline  
SADCBA PPP Capacity Building Programme  
Tete-Nacala Corridor
- Namibia Nampower  
Namcor
- Nigeria NGC  
NPDC  
Edo State Power  
River State Power Project  
IPC
- South Africa Metro Gas  
Kelvin Power Station IPP  
Pretoria West Power Station  
Mondi Merebank Cogeneration Project IPP  
Cape Power Project  
Safika / MTN  
NSB  
CEIN  
Athlone Power Station  
Alstom BEE Participation  
EDI  
Exxaro  
National Energy Regulator  
GronwEnergy  
Eskom  
Sasol  
Promethium
- Swaziland Gas Power Projects  
Bagasse Power Project
- Tanzania Dar Es Salaam / Mwanza Pipeline  
Central Corridor Road Project  
Tanesco  
Kiwira
- Uganda UEB Generation  
UEB Distribution
- Zambia ZTK Interconnector  
OPPPI  
ZESCO
- Zimbabwe Zimbabwe Electricity Supply Authority - Hwange

## AFRICA INVESTOR INFRASTRUCTURE AWARDS 2008



Clive Ferreira, MD of Fieldstone Africa, receiving the award from Mr Haluk Bilgi, President TAV Turkiye SA on behalf of Africa investor

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Africa investor Magazine hosts the prestigious annual Africa investor Awards and the annual Ai Projects Summit for infrastructure investors and developers in the region.

Fieldstone is delighted to announce that we were voted "Advisor of the Year" 2008. The award was presented at a gala dinner at the Sandton Sun hotel on 10TH November 2008, attended by over 200 delegates.

The two projects that were cited in support of Fieldstone's award were our role as advisor to the Government of Mozambique for the restructuring of the 2075MW Cahora Bassa

Dam in Mozambique and our role as advisor to NamPower on the funding for the Caprivi Link project in Namibia.

The award for "Power Deal of the Year" was presented to Tata Africa Holdings/ ZESCO for the Itzhi-Tezhi project on which Fieldstone is currently jointly advising. The NamPower Caprivi Link project was runner-up in the same category.

Fieldstone is proud of this market recognition and we thank our clients and business partners for their trust in us, without which our success would not be possible.

# FIELDSTONE

## Selected Transactions...

2009

**Aldwych International Limited**




Corporate Financing comprising £9,674,587 equity and £27,070,000 debt





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**FIELDSTONE**

2008



Financing of the Caprivi Link Transmission project, Namibian Dollars 1.16 Billion


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**FIELDSTONE**

2008

**africainvestor**

**Financial Advisor of the Year, Infrastructure Sector Awards**

With special mention of :

- Restructuring of the 2075MW Cahora Bassa Dam- Mozambique
- Financing of the Caprivi Link transmission project – NamPower

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**FIELDSTONE**

2007


**MOZAMBIQUE**

US\$950m restructuring of the 2075MW Hydro Power Cahora Bassa Dam

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**FIELDSTONE**

2007




Domestic Medium Term Note Programme NAD/ZAR 3000 million

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**FIELDSTONE**

2007



Development of regulatory guidelines and qualifying principles for the National Electricity Regulator of South Africa (Nersa)

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**FIELDSTONE**

2005




Acquisition of a 20 year concession from Government of Uganda to operate the electricity distribution system




Uganda Electricity Distribution Company Ltd


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**FIELDSTONE**

2002



20 year concession to operate the 380MW Nalubaale and Kiira hydroelectric facilities



Uganda Electricity Generation Company

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**FIELDSTONE**

# Overview – South African Power Market

- South Africa has experienced strong economic growth over the past several years averaging between 4-5% per year;
- Recent demands on the electricity infrastructure threatened to derail this economic growth; “Fortunately” the world-wide credit has provided some temporarily “breathing space” for Eskom;
- South Africa institutions (NERSA/DME/Eskom) is in the process of instituting a number of supply, demand and infrastructure initiatives;
- SA Government’s policy and publicly stated goal has been for a number of years that 30% of electricity to be supplied by private sector participants whilst Eskom Generation will remain responsible for 70% of the supply;
- Unfortunately no successful actions yet in support of this goal. In contrary, Eskom is being allowed to create more and more generation capacity;
- Restructuring of the current vertically integrated market to a more open market structure remains critical and the attraction of Independent Power Producers (IPPs), Co-generators and an independent system operator remain essential for this transition to take place;
- *South Africa needs to quickly adopt and implement the steps needed for the restructuring of its electricity industry; this will restore reliability and get SA back on track to record the economic growth it has experienced in the past.*

# ASPECTS TO BE DEALT WITH

- What is needed for successful PPPs?
- Why are IPPs in danger of failing in South Africa?
- What should be done?

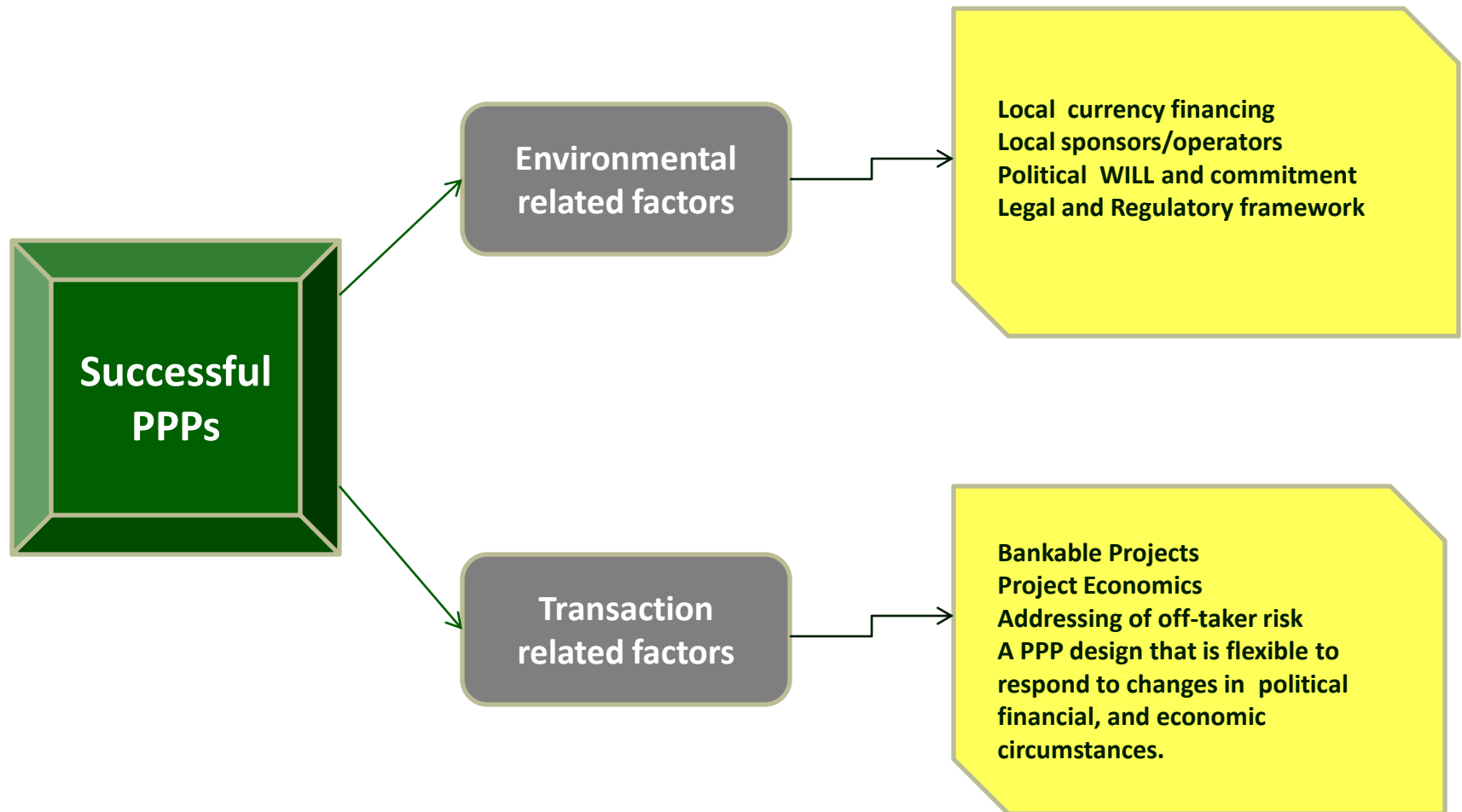
# BENEFITS OF PPPs

- Accelerate delivery of infrastructure
- Budgetary certainty
- Payments linked to service level delivered
- Assured maintenance
- Value created through competition and transfer of risks to private sector
- Broadening the pool of capital used for funding (overseas investments etc)

# PPP Problems

- Can be costly
- Requires stacks of documents
- Needs time to completion
- Needs strong experienced management
- Financing has become more challenging
- Bidding can become controversial

# Key Factors For A Successful PPP



# South African Experience

- South Africa has had limited success in energy PPPs:
- Barriers
  - Lack of formal processes
  - Over capacity
  - Low tariff
  - Large single incumbent supplier
  - Lack of political will?
- Kelvin has been the only implementation to date despite many attempts

# Recent attempts

- 1,000 MW Peaking Power;
- Cogeneration tender;
- Medium Term Power Programme;
- Base load tender

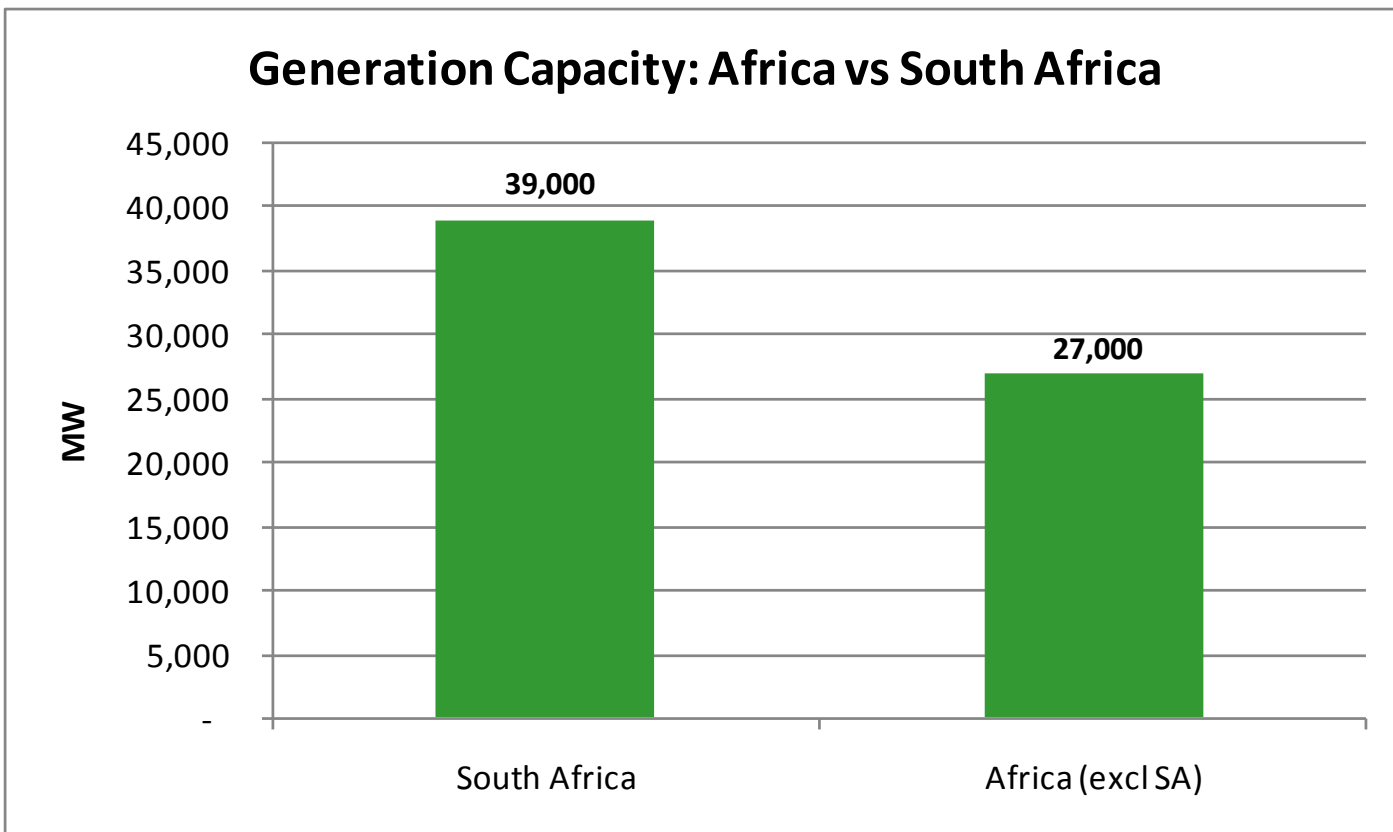
## **Results:**

- No significant new capacity,
- Project delays
- Few final bids
- Costly exercise to all parties
- Market losing confidence

# ASPECTS TO BE DEALT WITH

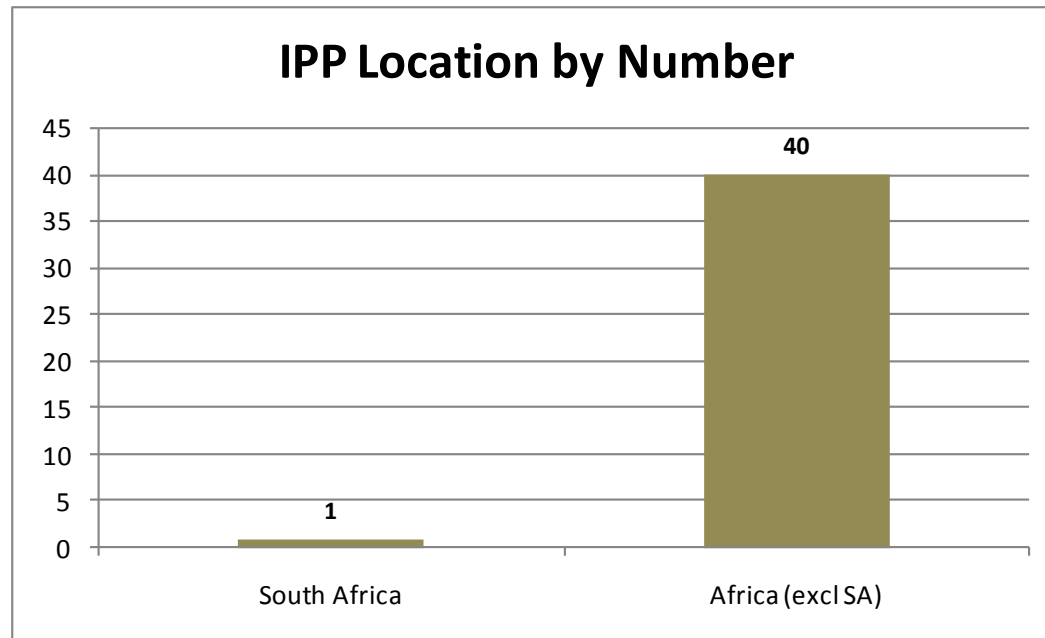
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# GENERATION CAPACITY IN AFRICA



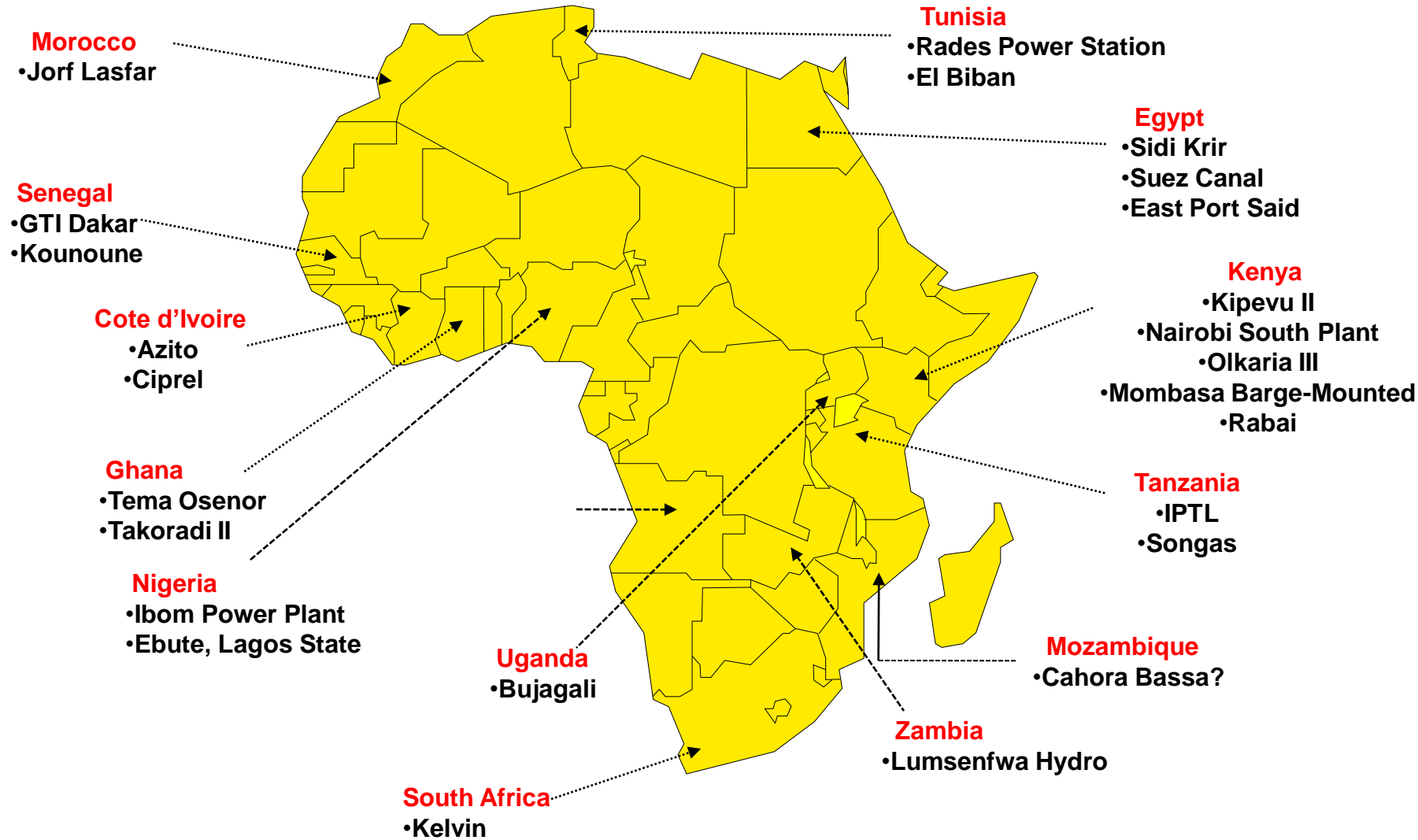
➤ **Nearly 60% of capacity in Africa is produced in South Africa**

# AFRICAN IPP EXPERIENCE



- Nearly 40 IPPs have taken root to date in Africa
- IPP location dependent upon:
  - Attractive investment environment;
  - Robust policy frameworks;
  - Abundant low cost fuel;
  - Secure fuel contracts;
  - Credit enhancements such as sovereign guarantees

# Selected IPPs in Africa



**“IPP” can virtually become a “PPP” if the govt is involved as partner / shareholder**

# PROCESSES HAVE FALTERED

- Lack of general enabling legislation
- Unacceptable PPAs-unbankable
- Unbankable fuel supply conditions
- Unrealistic time tables
- Lack of communication
- Lack of commitment and political will
- Who drives the process?: DME/NERSA/ESKOM/Treasury

# COST AND TARIFF IMPLICATIONS

- South Africa faces steep tariff increases to pay for the huge new expansion (with or without IPPs)
- Eskom now needs significant Government support to implement its mammoth expansion plans

# ASPECTS TO BE DEALT WITH

- What is needed for successful PPPs?
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# QUESTIONS

- How can IPPs compete with Eskom's "cheap source" of capital
- Do we need IPPs?
  - High cost perception
  - Avoid Controversy?
  - Save the time and effort needed

# COMPETITION WITH CHEAP SOURCE OF CAPITAL

- Cheap **cost of capital** available does not necessarily translate into cheap..... **capital cost**
- Are the best capital budgeting decisions made?
- Robust non recourse financing review and alternative pricing will provide necessary checks and balances
- Competition will reduce the % increases!

# DO WE NEED IPPS?

- Yes we do
  - Internationally more successful than most other solutions;
  - Mobilisation of additional capital sources
  - Innovative solutions
  - Attract human resources and skills
  - Develop local industry and local developers

# CRITICAL ISSUES TO SOLVE

- Political will
- Enabling environment
  - Enabling legislation
  - Independent playmaker
  - Clear targets on how to meet stated policy
  - Bankable documents
  - Realistic and clear time lines
  - Fair attractive competitions
- Funding currency
  - Avoid Dollars if we can
  - The funding market is however significantly larger in Dollars
  - Lenders should be encouraged to issue in rand
  - Depending on number of projects limited dollar indexation may be required

# CONCLUSION

- The investment needs of South Africa and Africa remain substantial;
  - Governments are not able to finance all investment requirements themselves ;
  - There is a growing interest by sponsors, private financiers, DFI's for investments in the region and Government needs to leverage on this; (Do not continue to push them away)
  - Due to the dire state of energy infrastructure in South Africa, Eskom needs alternative delivery mechanisms – PPPs offer such a mechanism;
  - Well designed PPPs are key to the attraction of investments and hence the development of the SA energy market;
  - PPPs are a key element in the transition of the SA electricity market to a fully restructured market.
  - The market is getting despondent.....
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