

Action for Energy

SANEA Initiative

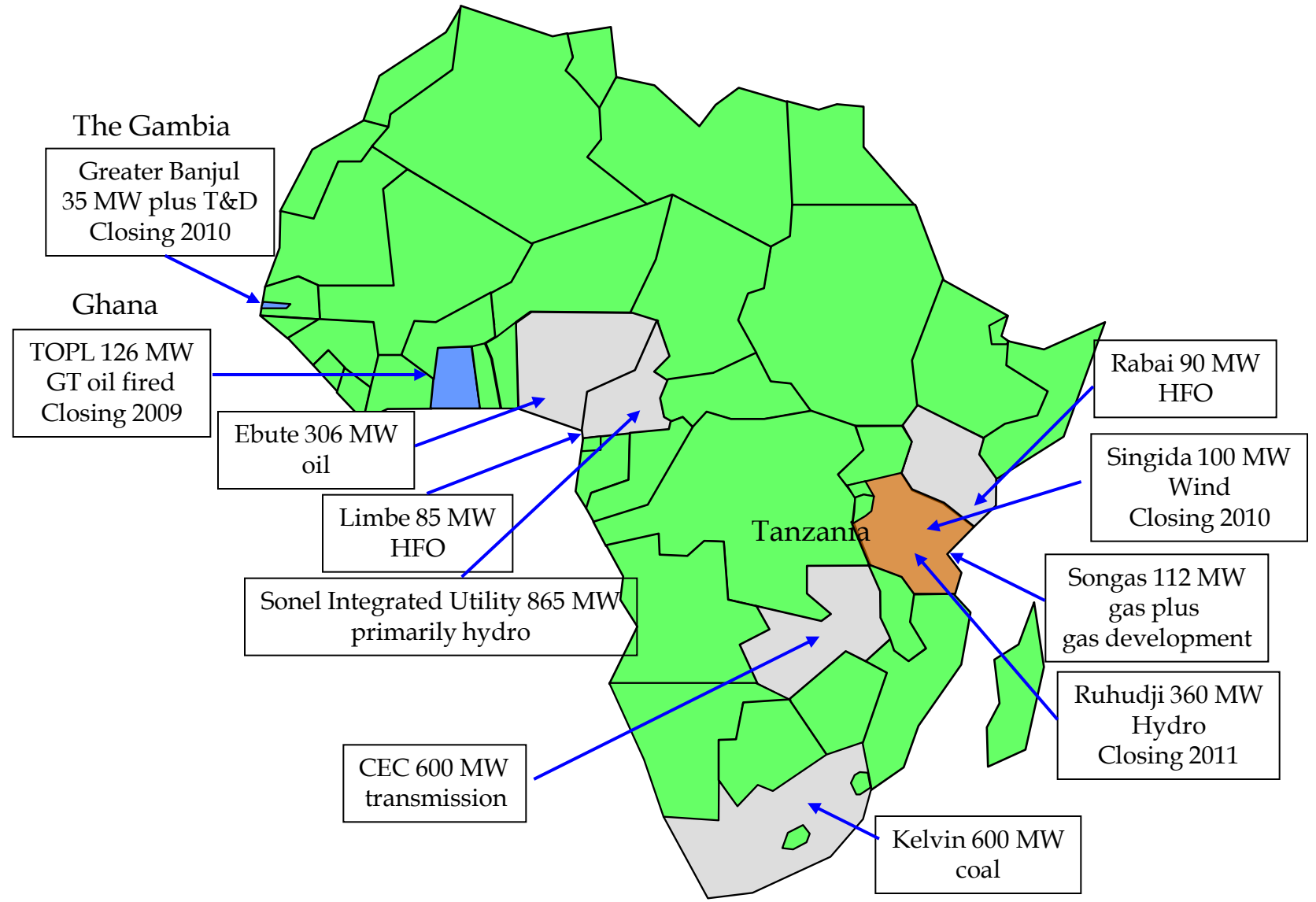
Independent Power in South Africa

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June 2009

Who is Aldwych

- Aldwych is a classic IPP
- Aldwych aims to develop (or acquire), construct, own and operate power generation primarily in sub-Saharan Africa
- The rationale for this is
 - There is a huge power deficit in the region
 - In Africa, PPAs are used to facilitate power plant development
- Aldwych has strong relationships with its with its financing partners who are DFIs. They include FMO, EAIIF, and PAIDF
- Aldwych has more IPP experience in power transactions and operations in Africa than any other company

IPP Projects Closed and in Advanced Development



IPP Policy in South Africa

Energy policy:

**** 30% of new generating capacity to be provided by IPPs ****

In the US, this would be called settled law

Status of IPPs in South Africa



Evaluation of Success*

IPP Selection Initiative	Significant Projects Selected
Negotiated deals	0
Peaker Tender	1 but not yet implemented
Cogen Tender	0
MTPPP	0
Base Load Tender	Delayed

* One successful municipal privatization under a tender in 2001

An IPP in South Africa

Kelvin Power  City Power
JOHANNESBURG

- 600 MW coal plant initially privatized in 2001
- Circa 1955 and 1965
- Financeable PPA with City Power



- Energy will be key to prevent load shedding in Jo'burg when the economy takes off again
- Financial close in August 2007. Aldwych led deal using 3rd party investors for equity
- Aldwych retained operating role, ~350 people
- Plant operations improved to ~340 MW
- Target to raise availability to roughly 400MW in the near term

Status of Base Load Tender

- The tender for base load capacity of between 2100 MW and 4500 MW from IPPs has been on-hold
- First announced in April 2008. Delays announced:
 - October/November 2008
 - February 2009
 - May 2009
 - **No new date has been specified**
- Draft regulation has been issued by NERSA on recovery of costs by Eskom (CRM) for IPP capacity
- Draft law was issued for comment in January by the DME on bidding. There is no news of its current status
- Eskom has stated that they are prepared to issue the tender when the enabling environment is created

Market Noise on BLT

Criteria	Apparent Status
CRM ratification	NERSA will ratify
Determine the Single Buyer	??
Exempt the BLT from the draft bidding law or enact a rational law	Release in June
Agree a mechanism to permit hard currency financing	Eskom and National Treasury have agreed
Allow the process to work. Do not require additional studies while the tender process is underway	??
Recognize that a an IPP tender process defines least cost generating capacity	Eskom states that they accept this principal
Produce a financeable PPA	Eskom states that a draft is prepared
Define the selection criteria in the tender. It must be clear and unambiguous - no artificial hurdles	Eskom states that they accept this principal

Steps Needed for BLT Success

A mind set change: IPPs must be seen as part of the solution

For the 30% IPP capacity, Eskom must view itself as a market maker

The regulator must provide certainty to the process

Leadership is required: between Eskom, NERSA, Dept. of Energy and the National Treasury, one party must take ownership of making this a success

Steps Needed for BLT Success

Government/Regulator:

- Ratify the CRM
- Determine who is the Single Buyer
- Exempt the BLT from the draft bidding law or enact a rational law
- Agree on a mechanism to permit hard currency financing
- Allow the process to work. Do not require additional studies while the tender process is underway
- Recognize that an IPP tender process defines least cost generating capacity

Eskom (or Single Buyer):

- Produce a financeable PPA
- Define the selection criteria in the tender. It must be clear and unambiguous – no artificial hurdles

IPP Industry

To date, IPPs have not had a cohesive voice to represent the interests of the industry. This is changing as a new IPP Association is being created which will include IPP companies, industry and perhaps regulatory agencies

An announcement will be made soon

Why IPPs in South Africa

- There is a need for new capacity notwithstanding the recession and the Eskom new build program
- Eskom has enormous capital requirements in the next 5 years – R 465 billion
 - Eskom is limited on how much cash it can raise
 - Eskom is limited on how many projects it can effectively manage
- It is good public policy to introduce competition into the generation sector:
 - Competition results in least cost power to the consumer
 - IPPs will access capital sources that are less demanding on the country's "balance sheet"
 - The equity injected by IPPs into projects increases the overall capital in the market

Why IPPs are Least Cost

Competitive forces are brought to bear:

- IPPs must find the lowest cost mix of
 - technology,
 - fuel supply,
 - construction contract terms and pricing,
 - plant location,
 - construction schedule,
 - operating regime, and
 - financing
- IPPs use their resources, at risk, to determine the optimum structure.
- To achieve the above, IPPs are forced to be creative
- Failure to meet PPA commitments results in significant penalties

Renewable Projects Status

Other presentations have been provided on renewables so only brief remarks are presented here

- Developers are pleased with the level of REFIT ratified by NERSA. Projects can get done
- The smaller size projects may come to market before BLT projects and thus not have a Fx financing issue
- Many risks and uncertainties remain:
 - How much renewable capacity will be purchased?
 - How will projects be selected?
 - How will the Single Buyer/ Renewable Energy Power Purchasing Agency's (REPA) office function? Inside Eskom?
 - What are the terms of the PPA?
 - How will the allocated capacity be split between the technologies
 - When will all of this take place?

Conclusion

- “We” know what needs to be done to facilitate IPP projects
- The pending law governing the bid program seems to be key to facilitate progress
- Developers have spent millions of dollars on failed efforts
- If South Africa is to meet its policy objective of 30% new capacity from IPPs, the BLT must not fail
- Failure of the BLT will be to the detriment of South Africa. Few IPPs will participate in new initiatives

IPPs must be seen as equal partners in the industry to Eskom. We are part of the solution to the (suspended) energy crisis

Thank You