

SANEA PRESENTATION

15th September 2009

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Producers Association

UNDERSTANDING THE ENVIRONMENT



CHRONOLOGY

- **2001 Kelvin/City Power – AES/Globeleq/Banks/Aldwych-Int.**
- **2004 DME IPP TENDER – OCGT – COEGA – AES preferred bidder Extensions. Deal Failure(Mar08). DME continuing negotiations with new IPP (Suez) 1000MW's.**

2006 Offer to Eskom to participate in 800MW CCGT at Coega – no reaction

2007 NB: IPSA GROUP PLC OFFER TO DME CCGT 800MW

(LNG MOU PRICE LOCK-IN OFFER) No reaction

CHRONOLOGY

- **COGEN – HISTORY**
- **2006 First : CASH GRANT TO SUBSIDISE Cogen (Nersa and Eskom were talking about options)
Then : ‘Subsidy’ to ‘encourage’ investment in Cogen 2007**
- **End 2007 Eskom began PNCP/MTPPP program**
- **MSBL followed later - 26 participants prequalified.**

CHRONOLOGY cont...2

- **REFIT 1: was introduced by Nersa(Mar08)**
Tranche 1 – 725MW's ? 400MW Wind. Rest solar/hydro
- **REFIT 2 followed (Sept 09)**
- **PPA (Comments DBSA & IPP'S) – comments were professionally made using DeweyLe Boeuf(London) Nersa receptive to quality input at public hearing.**
- **DoE TOR for REFIT(White Paper) – 10000 GWh by 2013 .**

Chronology.....cont 3

- **RERA guidelines for regulating Cross Border Power trading in the SADC region**
- **September 09 conference in Centurion.**
- **Facilitating IPP access to SAPP.**
- **Can IPP's in future,trade on the SAPP?**
- **Currently looking at Day Ahead Market.**

CHRONOLOGY cont...4

- **Sept 09 Eskom suspends MTPPP program – letter sent to IPP's. Eskom cites lack of funding plan and PFMA requirements.**
- **Eskom unable to perform.**
- **Eskom requires 'ENABLING' environment to perform**

Chronology cont.....5

- **How do IPP's react to an invitation to participate in a procurement program?**
- **Resources - human, financial, reputation etc. They submit bids in good faith.**
- **How do IPP's react when they receive a letter that says... 'Oops, tread water while we sort our act out.'**

ESKOM REQUIRES ENABLING ENVIRONMENT

- 1. CRM (COST RECOVERY MECHANISM) – NERSA approval expected now SEPT 09**
- 2. PRICE PATH – NERSA to publish imminently**
- 3. FUNDING MODEL –**
 - » Existing operations and New Gx expansion
 - » IPP participation

DOE: NEW Gx REGULATIONS

- **Gazetted 5 August 2009**
- **System Operator NOT a legal entity.**
- **‘BUYER’ – designated by MINISTER**
- **IRP:**
 - **SO (ESKOM)/ENERGY PLANNER (DOE)/NERSA**
 - » **TO BE GAZETTED (WHEN?)**
 - » **Nersa only considers licenses from IRP?**
 - » **What happened to willing buyer/willing seller?**

DOE: NEW Gx REGULATIONS

cont...

- **PROCUREMENT :**
- **4(3) CONCURRENCE OF MOF!**
- **PPA: 6(2) says BUYER “MUST PURCHASE”**
 - **CONFLICT IF ‘Buyer’ is Eskom – PROTECTION UNDER ‘PFMA’**
- **REFIT/IPP Program.**
 - **7(4) – CONFLICT OF SO**
REPORTS TO ESKOM BOARD
 - **7(5) – REGS vs PFMA**

DOE: NERT PROCESS

- **WORKGROUPS**

- **SUPPLY SIDE MANAGEMENT**
Supply/Cogen, Dx, Reliability Gx/Tx
- **REGULATORY, FINANCING – Environment**
Financing, Economic, Legal, Regulatory, Tariffs, Emerg Resp
- **DSM – PCP, DSM, Emerg Resp, Comms**

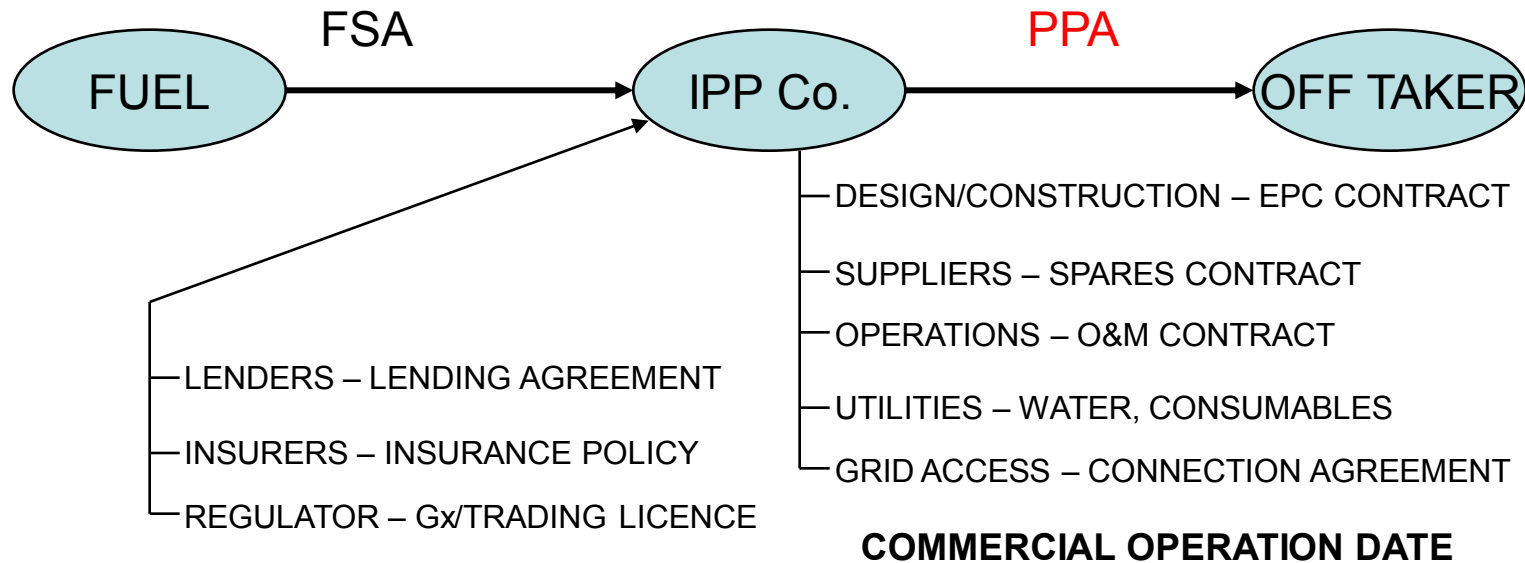
*Supply Issues: PPA, Grid access, PCP clarity, ISO, IRP, CRM, Tariff path,
IPP's in IRP?*

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IPP's REQUIRE AN ENABLING ENVIRONMENT

1. IPP PROJECTS must be **BANKABLE**

BASIC IPP PROJECT STRUCTURE – KEY AGREEMENTS



PPA IS THE FOUNDATION OF IPP FINANCEABILITY

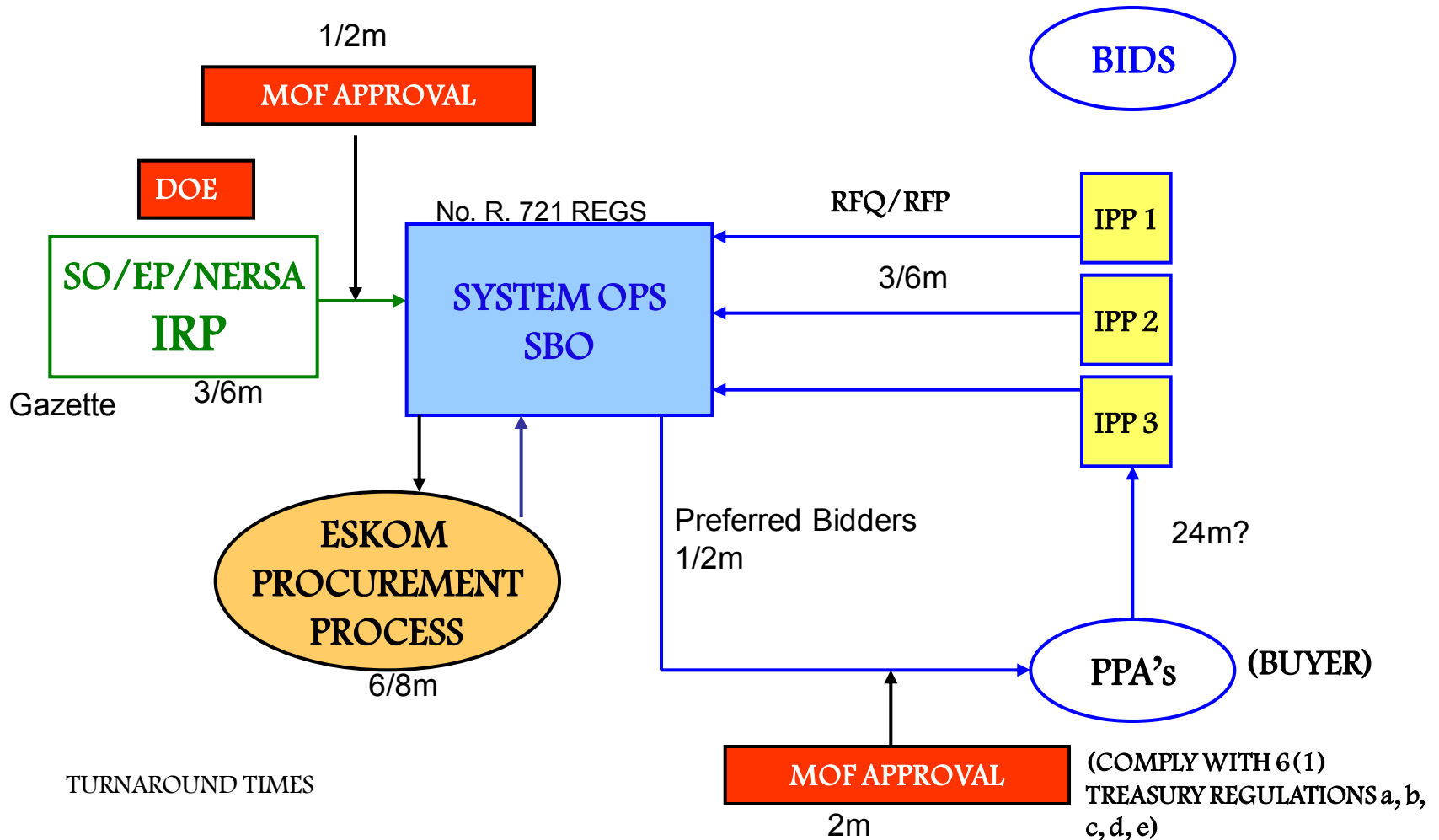
ISSUES

- **ABILITY OF PARTICIPANTS TO PERFORM :**
 - **ESKOM**
 - **DOE**
 - **DPE**
 - **DTI**
 - **TREASURY**
 - **NERSA**

Corporate and Institutional insufficiency

“THE ORCHESTRA HAS NO CONDUCTOR”

ISSUE: TURN- AROUND TIME?



PROBLEM

PROBLEM

We have a shortage of MW's.

QUESTION?

Who is solving the problem?

***Eskom is ONLY party building base load power station – Medupi1
will be commissioned Apr 2012 (official)***

PROPOSED SOLUTION

1. Eskom should concentrate on core business (O&M) & CURRENT EXPANSION.
2. Insulate *COST OF ESKOM* from *COST OF ELECTRICITY*
3. TREASURY/DoE to manage IPP PROGRAM now.
4. Move SYSTEM OPS & Tx (WIRES BUSINESS) into INDEPENDENT separate LEGAL ENTITY to procure IPP and Eskom power.
5. ESKOM Gx to compete with IPP's on SAME LEVEL PLAYING FIELD.
6. **TO ENSURE EFFICIENCY IN SUPPLY SIDE INDUSTRY.**