

2018/1



Independent Power Producer Office

IMPACT OF SIGNING AGREEMENTS BW3.5 & 4

24 April 2018

...”it (REIPPPP) has already established a flagship public-private partnership model for South Africa, and indeed the rest of Africa, and in the process is helping alleviate Eskom’s current power crisis while also reducing greenhouse gas emissions.”

- Enabling Renewable Energy in South Africa: Assessing the REIPPPP, WWF, August 2014

a partnership between



energy
Department:
Energy
REPUBLIC OF SOUTH AFRICA



DBSA
Development Bank
of Southern Africa



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



18042456 Eon (I) Ltd



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Overview of BW3.5 and 4 projects under the REIPPP

- ❖ The 27 projects will collectively add 2 305.42 MW to the country's grid in the next 4 years, with most of the projects set to begin commercial operations during the 2020/21 and 2021/22 financial years.
- ❖ The projects will be located in six (6) of our provinces and will draw from a range of technologies as shown below:
 - One (1) Biomass project (25.00 MW in total)
 - Twelve (12) Onshore wind projects (1 362.82 MW in total):
 - Twelve (12) Photovoltaic projects (812.90 MW in total):
 - One (1) Small Hydro project (4.70 MW)
 - One (1) Concentrated Solar Photovoltaic project (100 MW)

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Overview of BW3.5 and 4 projects under the REIPPP continued

❖ The **geographical spread of the projects**, per province, are as follows:

- Four (4) onshore wind projects in the Eastern Cape;
- One (1) small hydro project in the Free State;
- One (1) biomass project in Mpumalanga;
- Four (4) photovoltaic projects in the Northwest Province;
- Six (6) onshore wind, eight (8) photovoltaic and one (1) concentrated solar photovoltaic projects in the Northern Cape; and
- Two (2) onshore wind projects in the Western Cape.

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ADVANTAGES

❖ Shareholding :

- **The 27 projects are making a significant contribution to Government's commitment to meaningful black ownership participation and economic transformation.**
- South Africans own the majority share of 57.8% (R11.90 billion) in the 26 Bid Window 4 project companies. Of the 57.8% South African Shareholding an average of 64.2% (R7.64 billion) is held by black shareholders.
- Black shareholders will own 42.9% (R0.58 billion) of the concentrated solar project in BW 3.5.
- Local community shareholding (total equity) in the 27 projects amount to 4.41% (or R1 014 million).
- Shareholding by black South Africans have also been secured across the value chain.

❖ Job Creation :

- Renewable Energy does not replace Coal.
- A total of 61 022 FTE* jobs are expected to be created of which 58 419 FTE jobs are for SA citizens. The bulk of the jobs will be created during the construction period.
- The most jobs for SA citizens will be created in the Northern Cape, a total of 35 363 FTE jobs followed by the Eastern Cape and North West where 8 760 and 7 808 FTE jobs will be created.
- 1 500 additional jobs to be created within the manufacturing sector.

- * Full time equivalent jobs -

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ADVANTAGES CONTINUE

❖ Localisation:

- R22,24 billion is expected to be spent on local goods and services during construction;
- Commitment from IPP's to procure 40% of the local goods and services from black-owned enterprises during construction period.

❖ Other:

- There are no risks to the consumers relating to the construction or operation of the plants;
- Consumers will only start to pay for electricity once the plants are operational.
- The IPPs have contractually committed to socio-economic development expenditure of R9.8 billion and Enterprise Development expenditure at R3.39 billion;
- The projects, at full operation, are projected to **displace** an equivalent of **8.1 million tonnes of carbon dioxide (Mt CO₂) emissions per annum.**

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DISADVANTAGES

❖ Financial Impact

- The REIPPPP has, to date, attracted R201.8 billion in local and foreign direct investment in energy infrastructure assets, of which the 27 projects represent a total of **R55.92 billion new direct investment**, thus contributing to the improvement of much needed economic growth.
- The impact on the government balance sheet is through contingent liabilities associated with government default or termination. The probability of these event occurring is considered low as it is within the control of government. Governments exposure will peak in 2020/2021 and will reduce annually as the IPPs repay debt to lenders and pay dividends to shareholders.
- Prices under the Power Purchase Agreement can only increase with CPI annually;
- In terms of Section 10 of the New Generation Regulation, Eskom is allowed the full cost of the **Section34 REIPPPP as a pass through** under the Multi Year Price Determination (MYPD).

❖ Operation Risks to Private Sector:

- Low Performance by the Plant impacting revenue and returns
- Increase of operational costs whilst tariff is fixed over the 20 years;

❖ Construction Risks to Private Sector:

- Costs and time overrun;
- Resources i.e. Engineering Procurement & Construction, local equipment suppliers availability.

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TARIFFS OF THE SIGNED PROJECTS AS PER 2018 TERMS

BW3.5 & BW4 Average Tariffs per Technology (2018 terms)

Technology	Average Tariff (2018 terms)	Average Tariff per kWh
Concentrated Solar	R1 751,96/MWh	R1,75
Bio Mass	R1 796,63/MWh	R1,80
Onshore Wind	R841,08/MWh	R0,84
Solar PV	R996,31/MWh	R1,00
Small Hydro	R1 384,27/MWh	R1,38

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Thank You

Date

