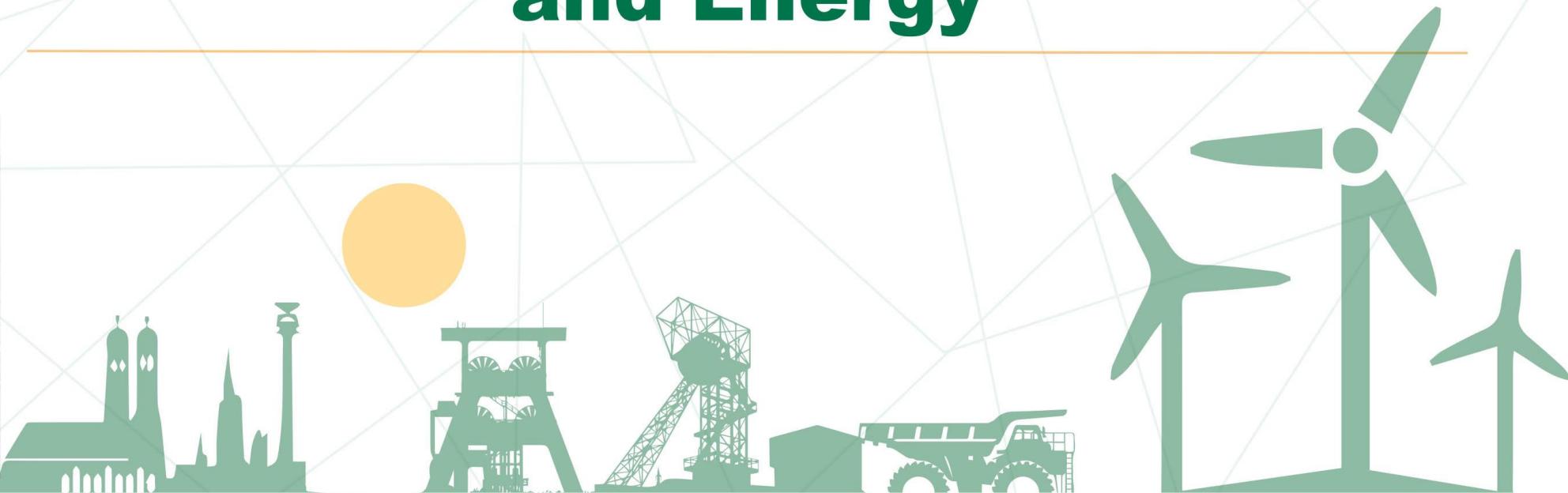




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INDEPENDENT POWER PRODUCER PROCUREMENT OFFICE (IPP OFFICE)

PCE MEETING IPP PROGRAMMES UPDATE: REIPPPP AND RMIPPPP

13 November 2024





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IPP Office Governance Framework, Mandate and Procurement Model



IPP Programmes Status Update



IPP Programmes Economic Development Contribution



Current Realities and Options under Consideration for Future Procurement



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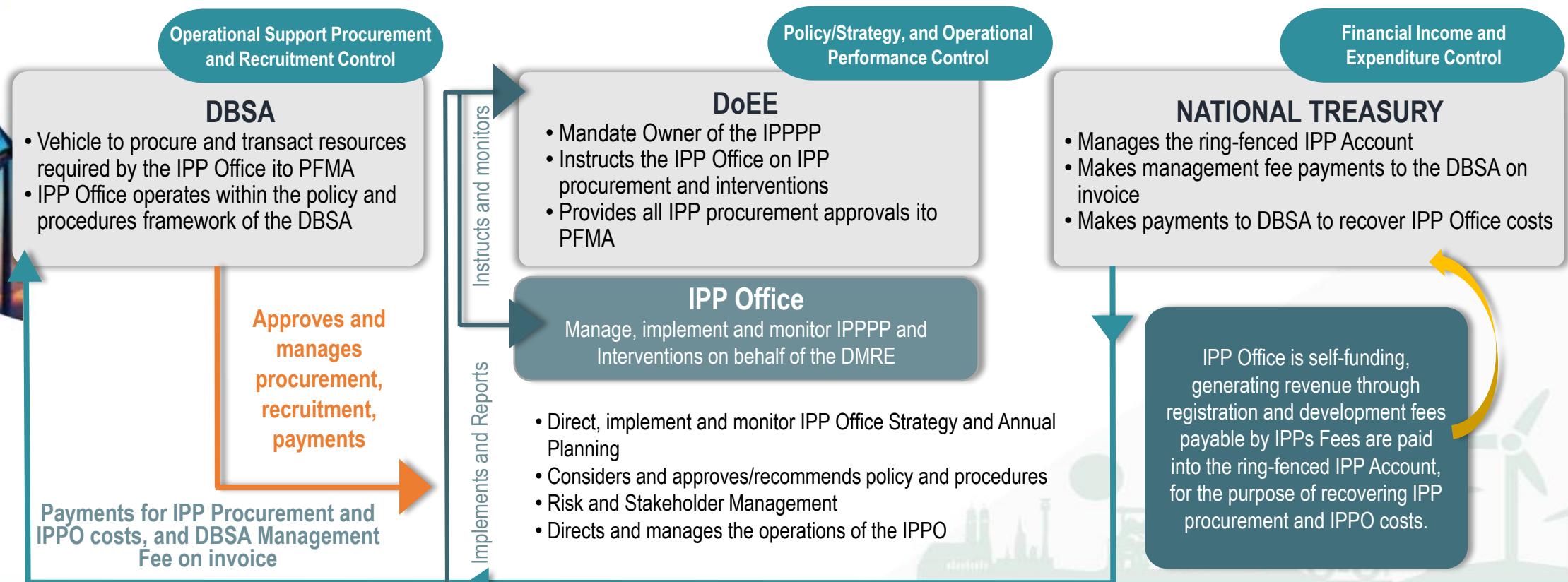
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IPP OFFICE GOVERNANCE FRAMEWORK

The IPP Office currently operates within the framework of a Tri-partite MOA





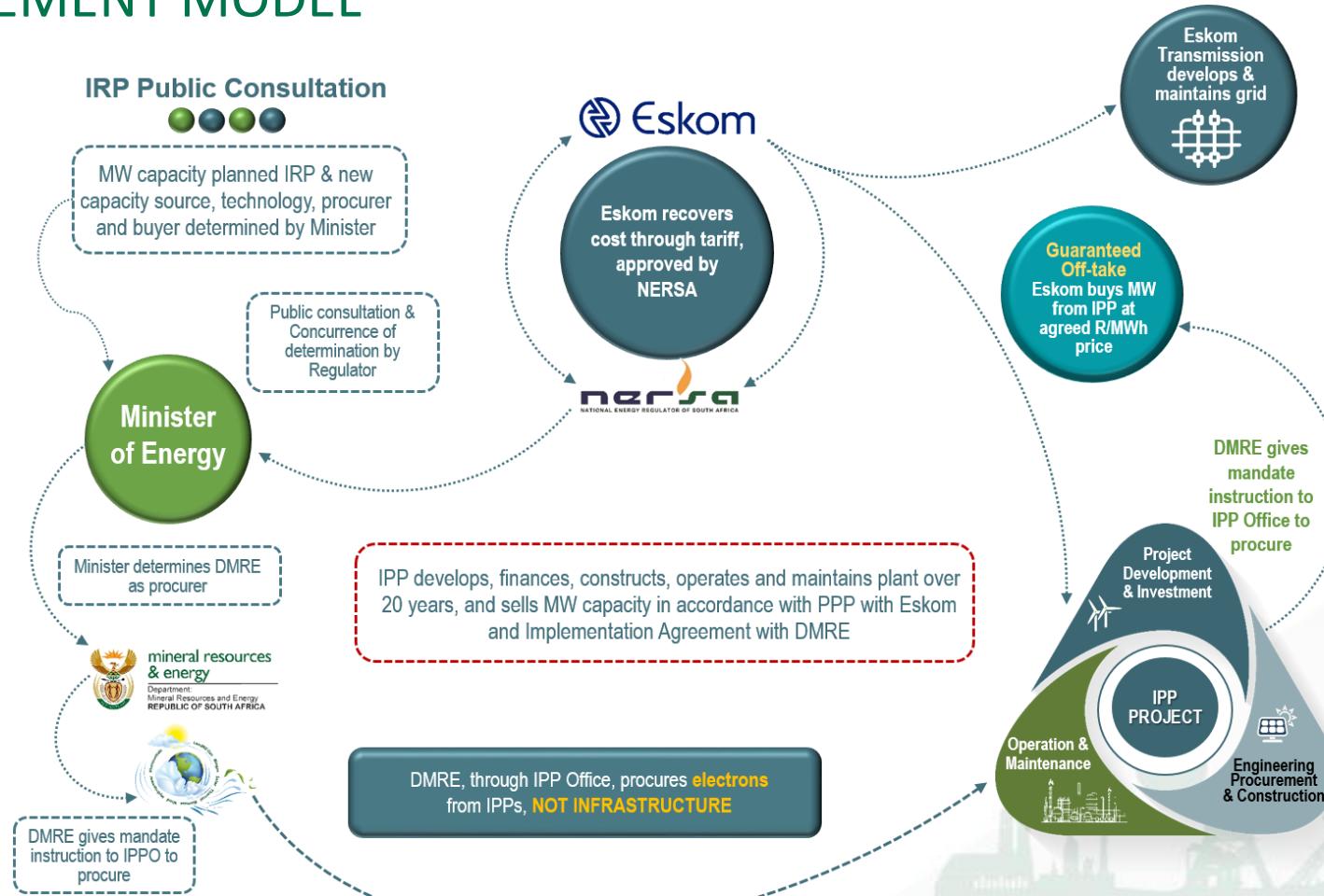
IPP OFFICE MANDATE

- The IPP Office was established in 2010 to provide rapid solutions to South Africa's severe electricity supply constraints, by procuring new energy generation capacity from Independent Power Producers (IPPs)
- The IPP Office is a project office hosted by the Development Bank of Southern Africa (DBSA) under a Memorandum of Agreement (MoA) between the Department of Electricity and Energy, National Treasury and DBSA. The IPP Office is not a judicial entity.
- The mandate of the IPP Office is to enhance private sector participation in electrical power generation capacity in the country, whilst contributing to broader national development objectives.
- We offer specialised services to government in respect of:
 - *Energy Procurement Management*
 - *Monitoring and Contract Management*
- Our skills, expertise and success in mobilizing and delivering on time is recognized domestically and globally.



IPP PROCUREMENT PROGRAMMES

PROCUREMENT MODEL



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IPP PROCUREMENT PROGRAMMES

PROCUREMENT MODEL – RISK ALLOCATION

An **IPP Project Company (Consortium)** established for the sole purpose of bidding for constructing and operating an independent power plant.

Typical IPP Company structure consist of:

- Main Sponsor (Local or Foreign)
- South African shareholders
- Community Trusts

Risk Allocation Ensures that IPPs:

- Provide **ALL the funds for** the construction and operation of the power plant – through debt (mostly) and equity
- Bears **ALL the construction and site risks** of the project – any delays or cost overruns are for the account of the IPP and not recoverable
- Commits to a **specified date to start generating power and is penalised if late**
- Manages **at own risk the operation of the power plant** for a period of 20 years (or more) and **ALL cost overruns** (for example increased maintenance cost) are for the account of the IPP and not recoverable
- Only starts recovering its investment **when the power plant starts generating power**
- Charges **pre-determined and predictable prices** – price adjustments CPI linked
- Bears **ALL the risk of reduced revenues** when the power plant is not operational or produces less power
- Commits upfront to **achieving targets in respect of job creation, economic development (enterprise development and preferential procurement) and socio-economic upliftment.**





IPP PROCUREMENT PROGRAMMES

PROCUREMENT MODEL - RISK ALLOCATION... 2

IPP Projects become an asset-back contingent liability on the government balance sheet when the projects are connected. All other risks are allocated to the IPP

COST RECOVERY MECHANISM

Section 10 of the Electricity Regulations on New Generation Capacity

- Eskom recovers full-costs through electricity tariff
- Projects costs in Multi-Year Price Determination (MYPD) over 3 years
- Recovers properly justified over-expenditure through Regulatory Clearance Account

GOVERNMENT SUPPORT FRAMEWORK AGREEMENT (GSFA)

Government provides a loan to Eskom to fund such part of its payment obligations towards IPPs that have not been provided for in the MYPD or an RCA, to avert default under the PPA and a call on the guarantee by Government in the Implementation Agreement (IA)

Allocate risk to the entity best able to manage and mitigate

EXPROPRIATION OR NATIONALISATION

Government is in control of any expropriation or nationalisation event and in such case will receive an asset in lieu of the payment of compensation

POWER PURCHASE AGREEMENT (PPA)

Allocates some risk to Eskom as Buyer, however Eskom can recover the associated costs through the tariff, thus no direct cost impact on Eskom

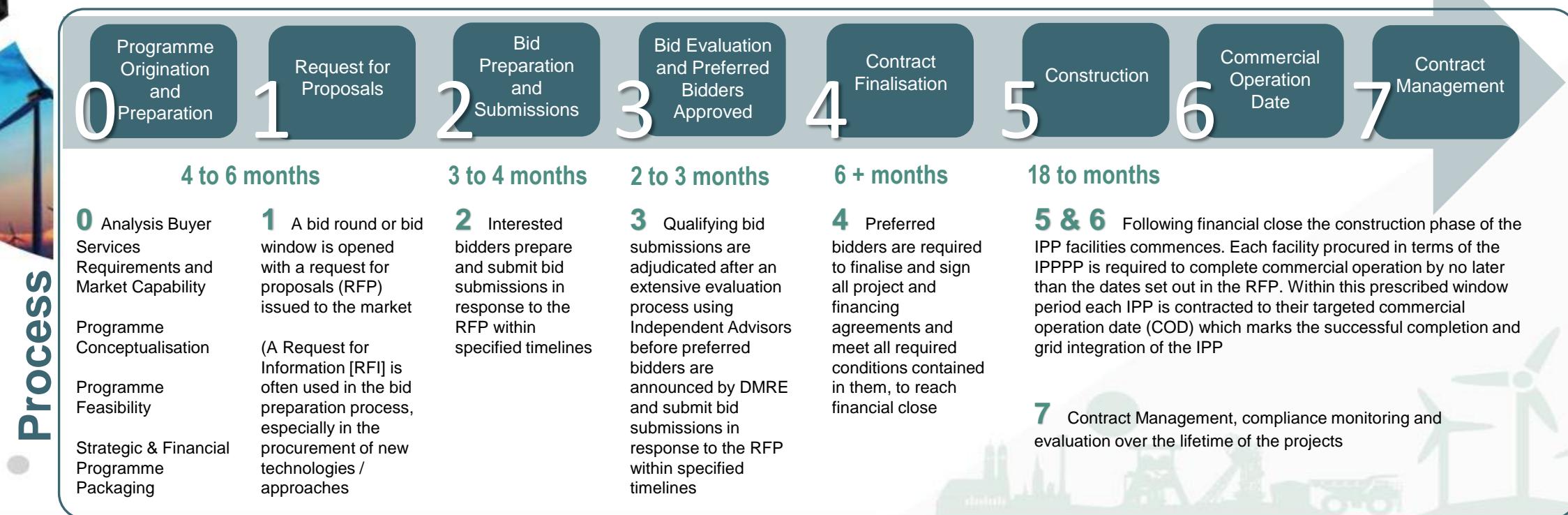




IPP PROCUREMENT PROGRAMMES

PROCUREMENT MODEL – STAGES AND MILESTONES

Within the scope of determined capacity, each IPPPP bid round is initiated with a DMRE procurement instruction detailing a capacity allocation (or cap) and targeted technology mix.

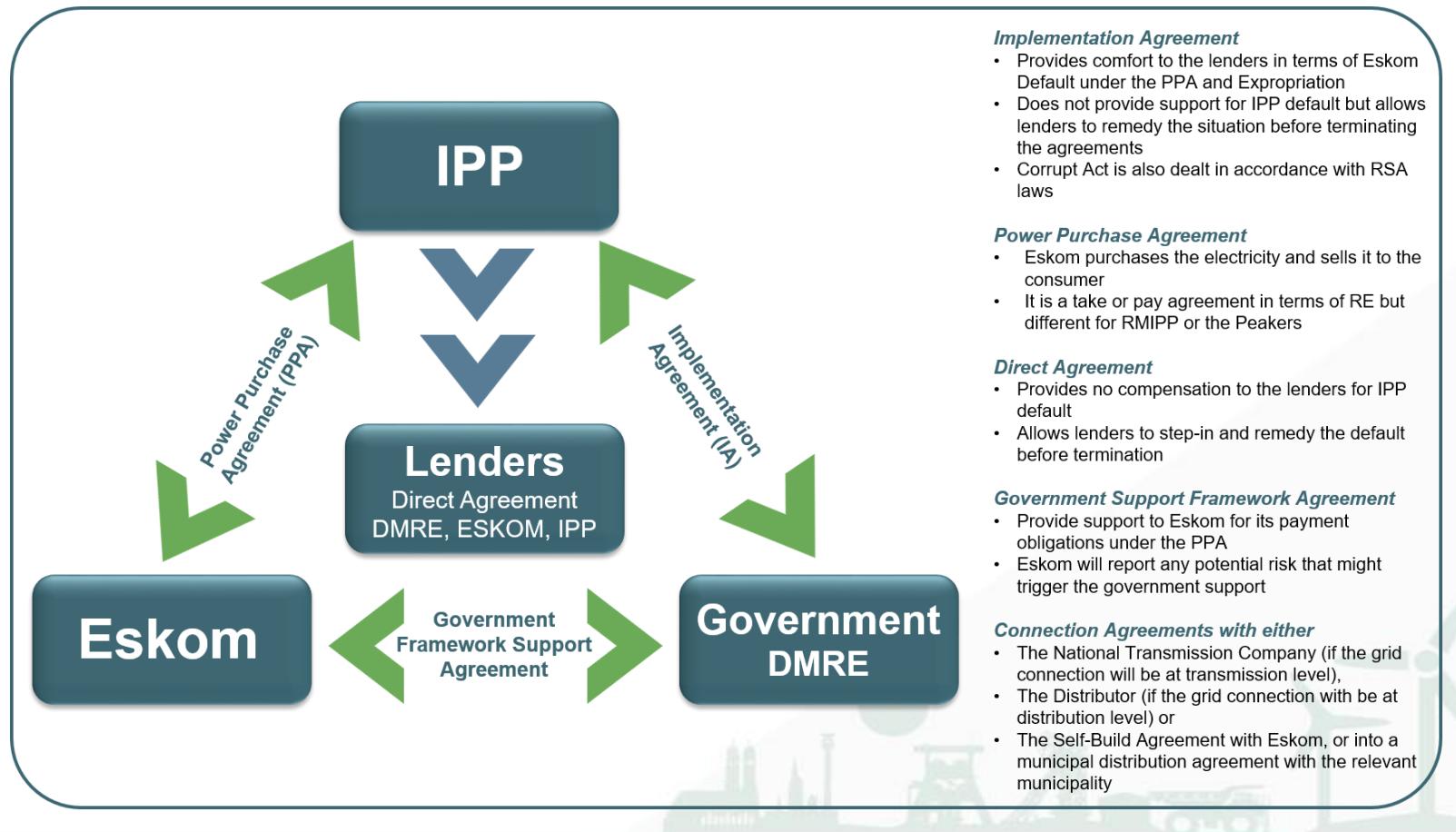




IPP PROCUREMENT PROGRAMMES

PROCUREMENT MODEL – PROJECT AGREEMENTS

IPPs enter into non-negotiable agreements that are included in RFP providing full transparency of the terms and conditions





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IPP Programmes Economic Development Contribution



Current Realities and Options under Consideration for Future Procurement



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IPP PROCUREMENT PROGRAMMES STATUS UPDATE

DASHBOARD AS AT 31 OCTOBER 2024



IPP Bid Windows procured since
inception of IPPPP



MW Operational from **95 projects**
including **2 Peaker projects (1005MW)**



MW from **7 projects** preparing to reach
commercial and financial close



Preferred Bidders appointed
totalling **13 422 MW**



MW in construction from **19 projects**



MW capacity currently in the market,
to be evaluated in 2024/25

REIPPPP Bid Window 7 (5 000 MW) and BESSI PPPP Bid Window 2 (615 MW / 2460 MWh) currently being evaluated



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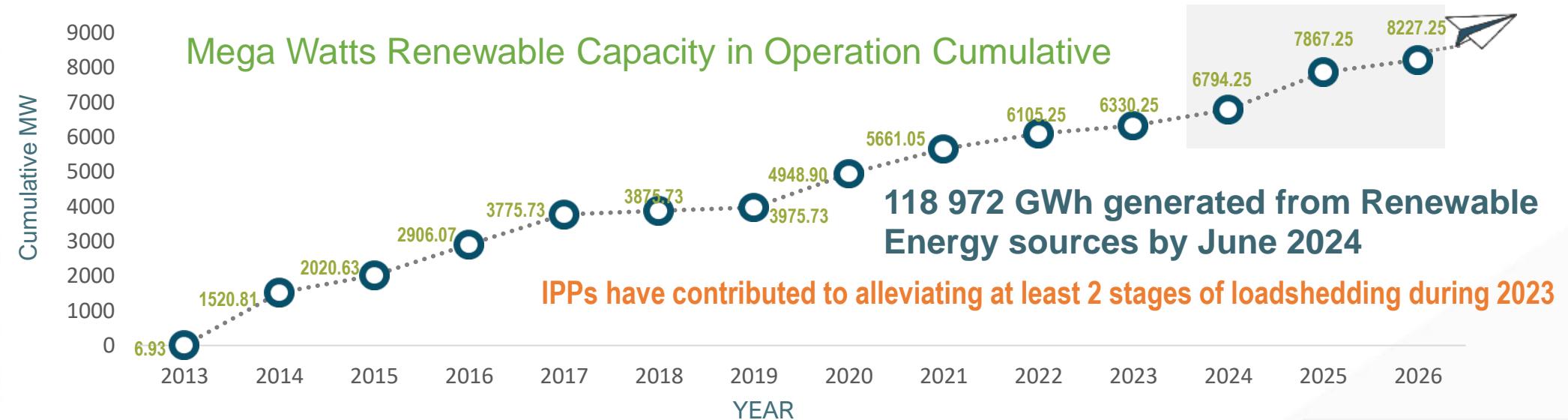
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IPP PROCUREMENT PROGRAMMES STATUS UPDATE

CAPACITY (MW) ADDED TO THE GRID



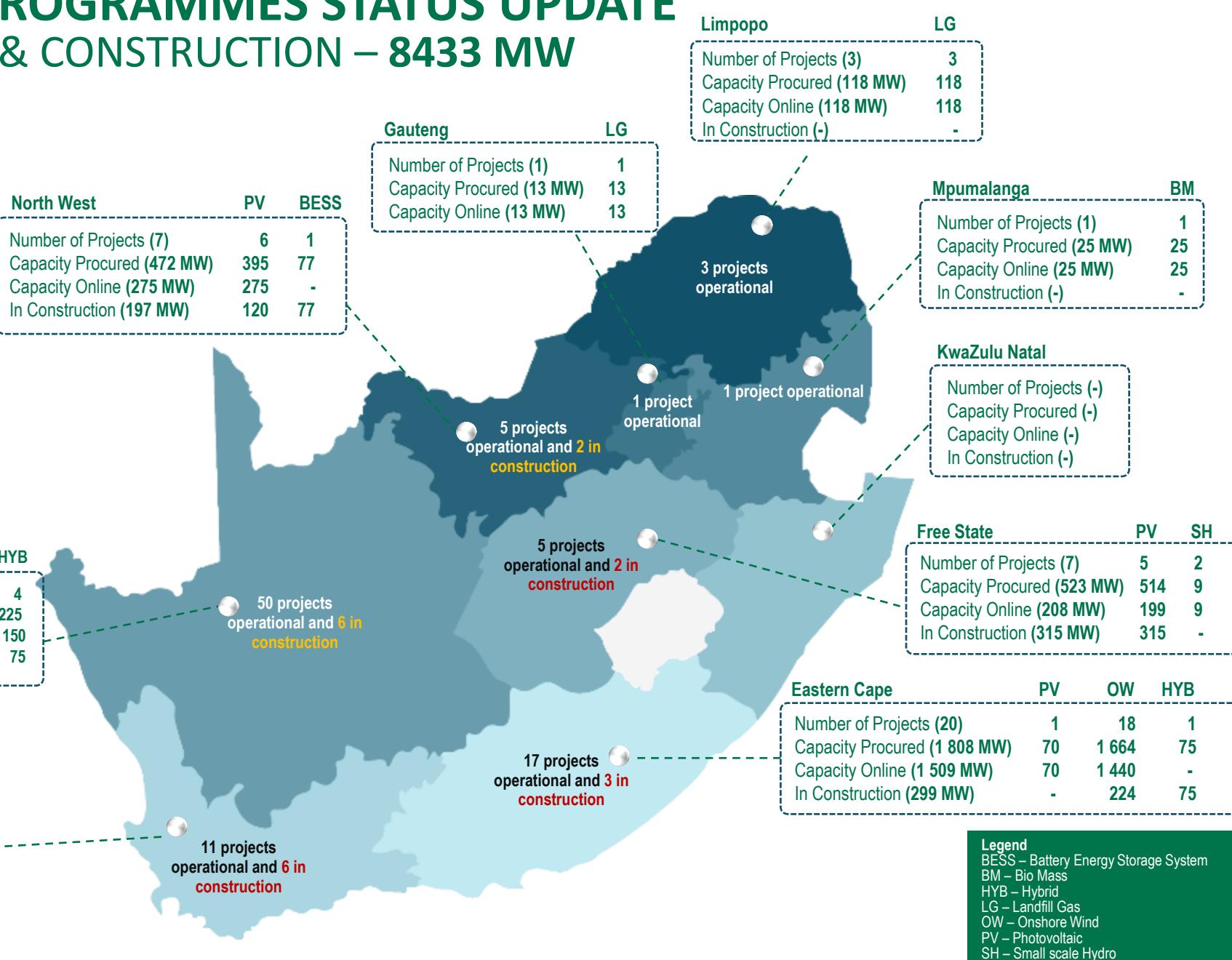
IPP PROCUREMENT PROGRAMMES STATUS UPDATE

PROJECTS IN OPERATION & CONSTRUCTION – 8433 MW

Total Projects	Procured	Online	Construction
Eastern Cape	1808	1509	299
Free State	523	208	315
Gauteng	13	13	0
Limpopo	118	118	0
Mpumalanga	25	25	0
North West	472	275	197
Northern Cape	4249	3616	633
Western Cape	1225	592	633
RSA (112)	8433	6356	2077

Northern Cape	PV	CS	OW	SH	BESS	HYB
Number of Projects (56)	29	7	14	1	1	4
Capacity Procured (4 249 MW)	1 572	600	1 739	10	103	225
Capacity Online (3 616 MW)	1 497	500	1 459	10	-	150
In Construction (633 MW)	75	100	280	-	103	75

Western Cape	PV	OW	HYB
Number of Projects (17)	8	8	1
Capacity Procured (1 225 MW)	359	738	128
Capacity Online (592 MW)	134	458	-
In Construction (633 MW)	225	280	128





IPP PROCUREMENT PROGRAMMES STATUS UPDATE EXECUTED BID WINDOWS AS AT 31 OCTOBER 2024 (1/4)

PROGRAMME	STATUS
Peakers – Open Cycle Gas Turbines (OCGTs) (2013)	✓ Two projects in operation (1005 MW)





IPP PROCUREMENT PROGRAMMES STATUS UPDATE

EXECUTED BID WINDOWS AS AT 31 OCTOBER 2024 (2/4)

BID WINDOWS IMPLEMENTED UNDER THE IRP2010	STATUS
REIPPPP BW1 (2011)	✓ All 28 projects in operation (1415 MW)
REIPPPP BW2 (2012)	✓ All 19 projects in operation (1033 MW)
REIPPPP BW3 (2013)	✓ 16 out of 17 projects in operation (1428 MW) 1 project did not reach financial close
SMALL IPPP PROGRAMME (2013)	✓ All projects did not reach financial close due to Buyers' refusal to enter into PPAs (99 MW)
REIPPPP BW3.5 (2014)	✓ 1 out of 2 projects in operation (100MW) 1 project in construction (delayed) (100 MW)
COAL IPPPP (2014)	✓ All projects did not reach financial close due to environmental court challenges (2 500 MW)
REIPPPP BW4 (2015)	✓ All 26 projects in operation (2205 MW)





IPP PROCUREMENT PROGRAMMES STATUS UPDATE

EXECUTED BID WINDOWS AS AT 31 OCTOBER 2024 (3/4)

BID WINDOWS IMPLEMENTED UNDER THE IRP2019	STATUS
RISK MITIGATION (2020)	<ul style="list-style-type: none">✓ 3 projects in operation (150MW)✓ 3 projects in construction (278 MW)✓ 5 projects did not reach financial close (1570 MW) – currently in winding down phase✓ 4/5 failed projects were gas technologies that failed to unlock ports access and / or gas supply and/ or EIAs
REIPPPP BW5 (2021)	<ul style="list-style-type: none">✓ 11 projects in construction (1159 MW)✓ 14 projects did not reach financial close (1424 MW) currently in winding down phase
REIPPPP BW6 (2022)	<ul style="list-style-type: none">✓ 2 projects in construction (360 MW)✓ 4 projects waiting for connection Budget Quotations in order to reach commercial and financial close (640MW)
REIPPPP BW7 (2023) 5000MW	<ul style="list-style-type: none">✓ Bid Submission concluded on 15 August 2024 – currently under evaluation✓ Preferred Bidder announcement by mid November





IPP PROCUREMENT PROGRAMMES STATUS UPDATE EXECUTED BID WINDOWS AS AT 31 OCTOBER 2024 (4/4)

BID WINDOWS IMPLEMENTED UNDER THE IRP2019	STATUS
BESIPPPP BW1 (2023)	<ul style="list-style-type: none">✓ 5 projects appointed (513 MW)✓ 2 projects in construction (180 MW)✓ 3 projects working to financial close (333 MW)
BESIPPPP BW2 (2023) – 615 MW	<ul style="list-style-type: none">✓ Bid Submission concluded on 29 August 2024 – currently under evaluation✓ Preferred Bidder announcement in current Financial Year
GASIPPPP BW1 (2023)	<ul style="list-style-type: none">✓ RFP still in market (2000 MW)
BESIPPPP BW3 (2024) - 616 MW	<ul style="list-style-type: none">✓ RFP still in market (616 MW)✓ Bid submission set for 28 November 2024





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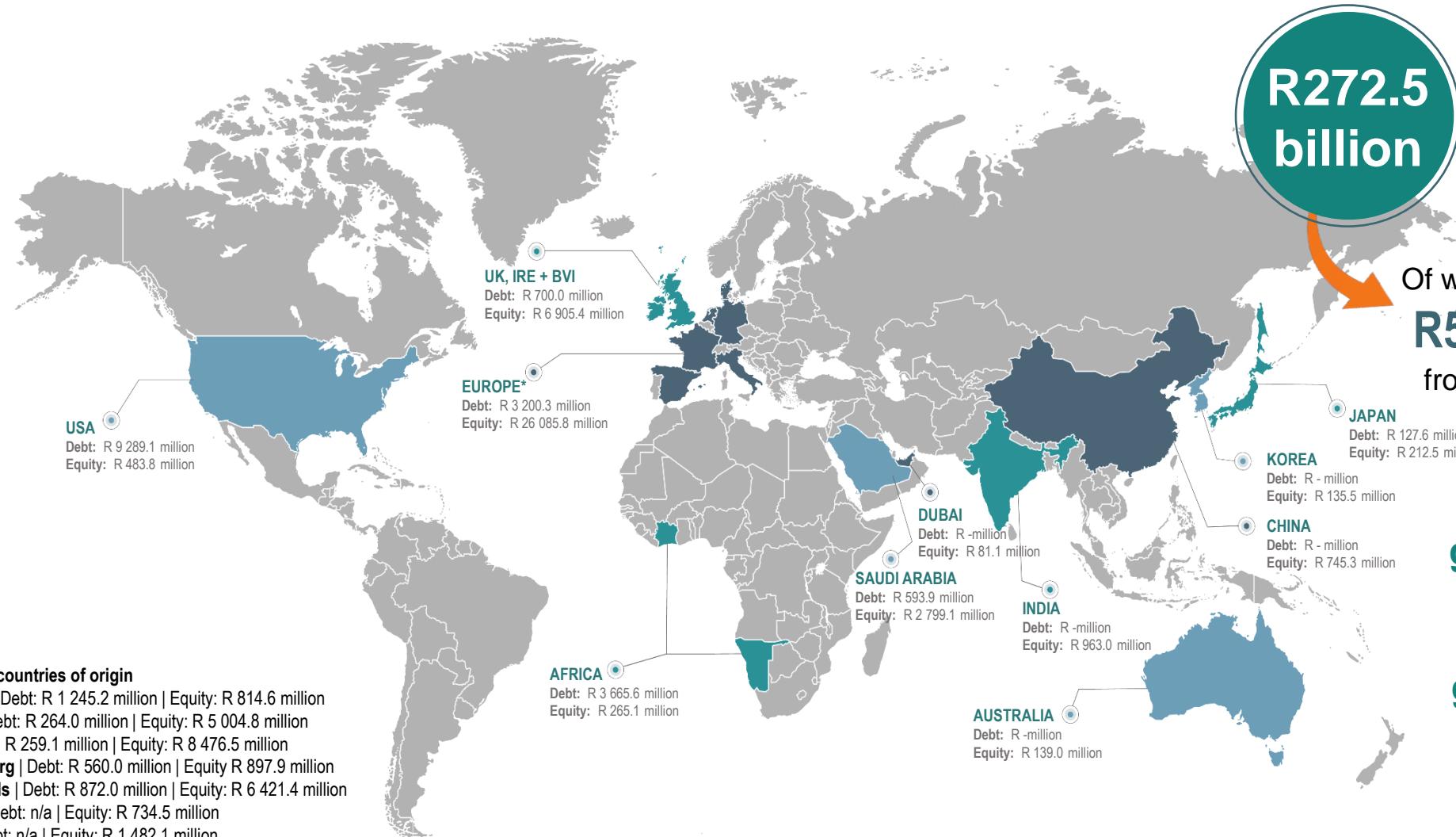
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IPP PROCUREMENT PROGRAMMES ED CONTRIBUTIONS

INVESTMENT ATTRACTED



investment attracted from renewable energy projects that reached financial close in all bid windows

Of which
R50.3 billion (18%)
from foreign investors

Enabled by the growth potential, the programme's transparency, and government support

Some of the main participating countries are
Germany, France, Italy, Spain, and USA.



IPP PROCUREMENT PROGRAMMES ED CONTRIBUTIONS

ECONOMIC DEVELOPMENT COMMITMENTS MADE BY IPPS

Economic Development Commitments by IPPs have been a cornerstone of the IPPPP since its inception in 2011, based on a Bespoke Scorecard, which has improved with every Bid Window.

Commitments made by Bidders are included in the **Implementation Agreement** as obligations and are monitored for compliance. The seven specific goals include:

Job Creation (RSA citizens who are black, women, youth, people with disabilities, and from communities);

Local Content (Local content spend during construction and operations);

Ownership (RSA Citizens, Black People, Black Women and local community ownership);

Management Control (Black people and Women at Board, Executive and Senior Management level);

Skills Development (Skills Development, Higher Education Bursaries for Black Students and skills development of people with disabilities);

Enterprise and Supplier Development (Preferential Procurement, Enterprise and Supplier Development);

Socio-Economic Development (Socio-Economic Development commitments in communities);

These elements were historically enabled by the Minister of Trade Industry and Competition granting a deviation from the B-BBEE Act and the Codes of Good Practise issued thereunder, and the Minister of Finance granting an exemption to PPPFA for a 70:30 (Price: ED) scoring system; and

Under 2022 PPPFA Regulations, Bidders are not compelled to make a commitment in any or all of the elements, however Bidders continued to uphold the Economic Development commitments of the IPPPP, but we have observed some regression in commitments.



IPP PROCUREMENT PROGRAMMES ED CONTRIBUTIONS NATIONAL ECONOMIC & SOCIO-ECONOMIC DEVELOPMENT IMPACT

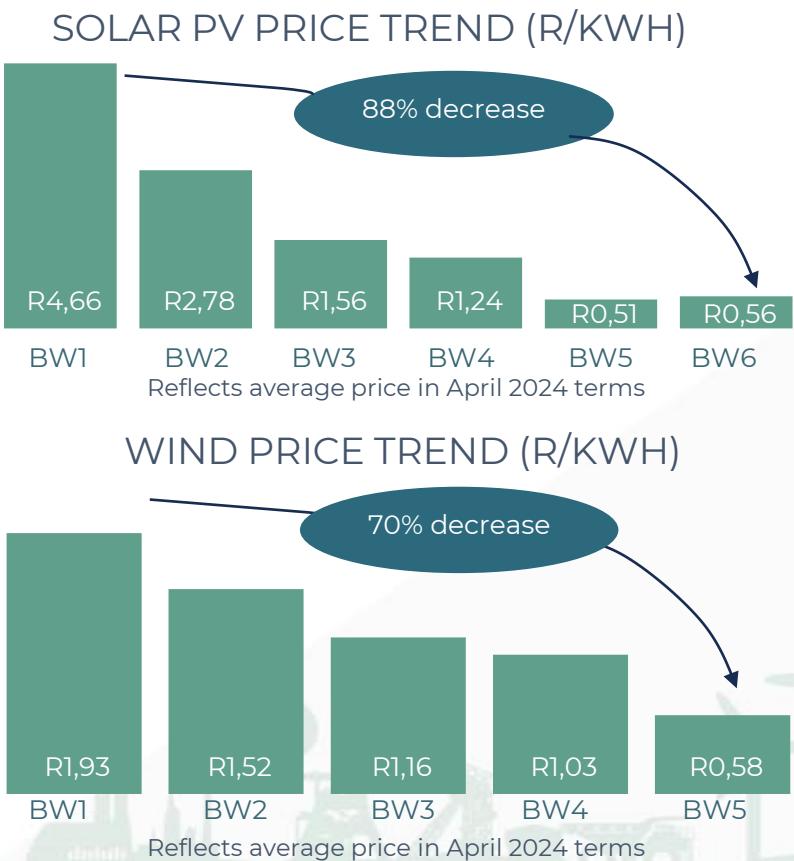
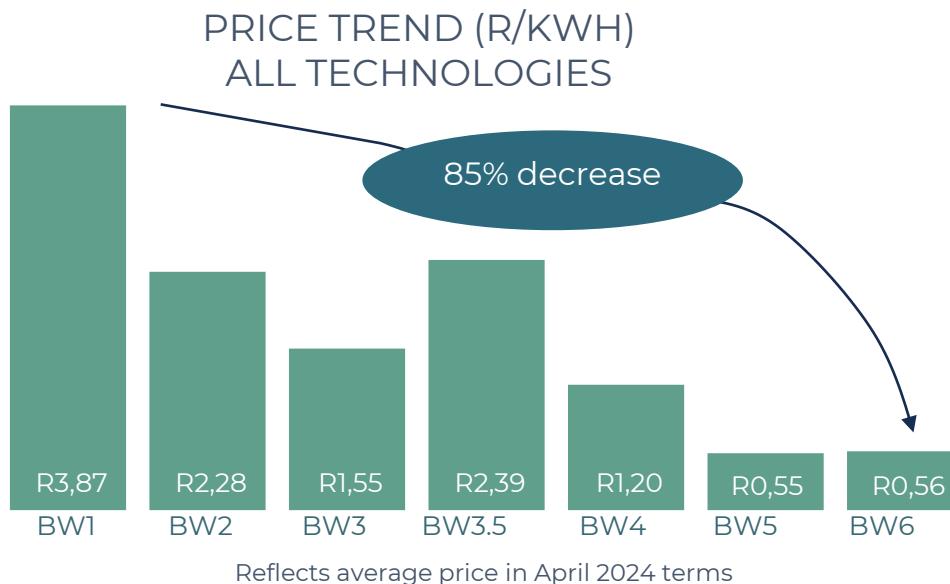
A significant feature of the IPPPPP is a focus on economic and socio-economic development impacts that IPPs commit to over the lifetime of the project



IPP PROCUREMENT PROGRAMMES ED CONTRIBUTIONS

COST RECOVERY MODEL - RENEWABLE ENERGY PRICE TRENDS

Through the competitive bidding process and increase in market confidence, the IPPPP effectively leveraged rapid, global technology developments and price trends



IPP PROCUREMENT PROGRAMMES ED CONTRIBUTIONS

REFINANCING INITIATIVE TO REDUCE TARIFFS IN BID WINDOWS 1 - 4



Launched in 2019, aimed at reducing Bid Window 1-4 tariffs to stimulate economic growth by passing any reduction in tariffs back to the consumer and the economy.

Sellers that have been operational for a number of years, are able to negotiate better debt terms and conditions with their respective financiers. The savings negotiated results in reduced tariffs and reinvestment opportunities.

26

Refi Applications
approved to-date

Resulting In

R5.1
billion

Saving over
remaining
terms of PPA

How does the REFI Process Work?

TIMING
The Seller submits a Refinancing Notice to the Department aligned to the requirements of the Refinancing Protocol and; The Seller submits required information to NERSA to start their process for approval of the tariff reduction.
Initial assessment done and responses received to further information requested by Department.
Assessment Completed and recommendation to DMRE for approval and to NERSA confirming the tariff reduction.
Approval of Refinancing and amendment to IA by DMRE Bid Adjudication Committee (BAC) and signoff by DG.
NERSA approvals for amendment to licence.
Financial Close of Refinancing
Eskom sign off for the amendment to PPA.

T = Refinancing Request Submission Date; BD= Business Day



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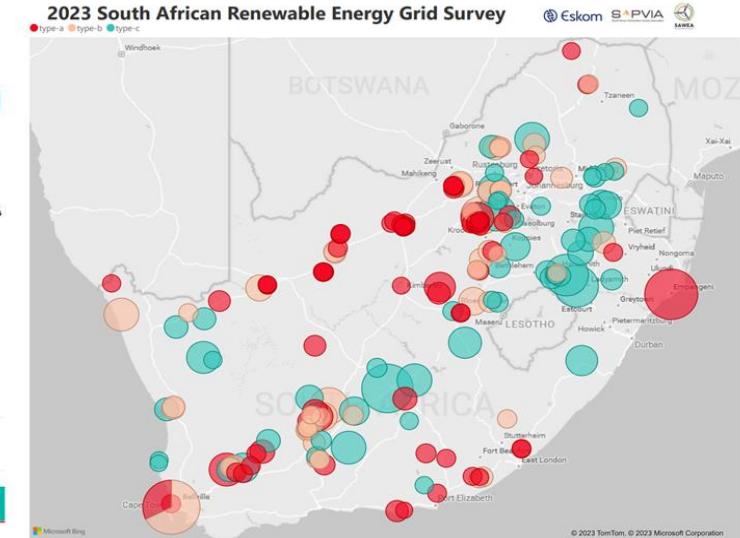
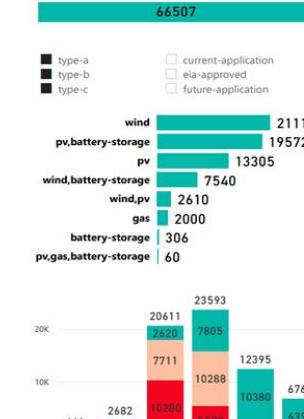


ACCELERATING FUTURE PROCUREMENT

CURRENT GRID CONSTRAINS IMPACTING LARGE SCALE RE PROCUREMENT

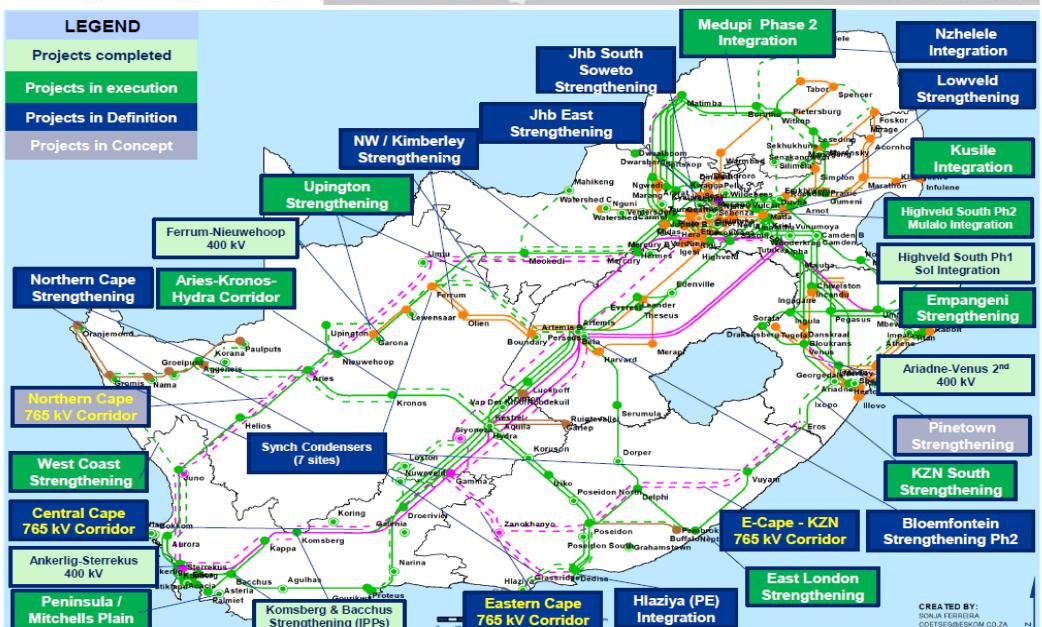
- There is currently **no grid capacity in the Cape Regions** and constraints in the grid continue to limit project development in the Cape Regions where most **shovel-ready Projects** are located.
- **Grid Development will take time to be realised**
- **Grid capacity is available in regions where there are no one or limited projects** that are ready. Recent studies conducted demonstrate that prices will likely increase in areas with lower yield.
- **Future procurement to also take into account electricity market reform** – in accordance with the ERA Amendment Act.

Project Type / Status



LEGEND

- Projects completed
- Projects in execution
- Projects in Definition
- Projects in Concept



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ACCELERATING FUTURE PROCUREMENT PROCUREMENT OPTIONS AVAILABLE FOR CONSIDERATION*

Over 10GW Determined RE capacity is currently available for re-allocation in new bid windows



Release separate RFPs for Wind and PV to manage competition for grid

Work with Eskom to find alternative ways to reduced grid allocation (CEL and BQ) timelines



Consider technology agnostic, **system requirement** focused bid windows

The next Bid Windows to target Projects that already have secured grid (with BQs)



On-line auction models from international experience have been investigated – will greatly reduce cost and time of bid evaluations

Geographically targeted procurement rounds.
Programmes that are aligned with the **Transmission Development Plan**



Must consider **realistic local supply and contracting capacity** with every new bid window roll-out

Establish **solar and / or wind parks** to greatly improve state of readiness and success. Could include Programmes that are combined with **Transmission Strengthening plans**



Need to **constantly communicate with the market** in order to mobilise potential Bidders to start the required processes, for e.g. CEL and/ or BQ applications and environmental authorisations



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options being considered will require consultation with stakeholders





Thank you



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