

HIGH LEVEL OVERVIEW: IPP PROCUREMENT

Presentation to AMEU

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WHAT ARE IPPS

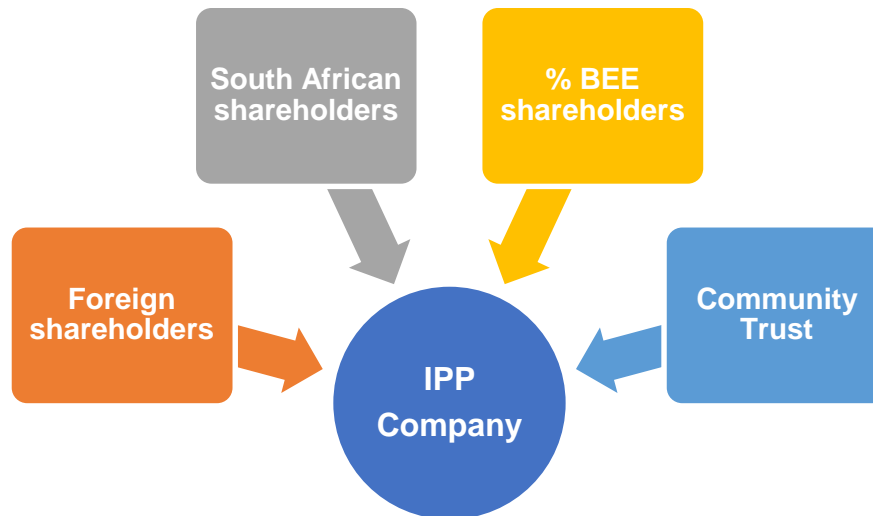


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What is an IPP?



Procuring electrons from private sector producers

“new generation capacity” means electricity or electricity capacity sold or made available, or generation capacity connected, to the national transmission power system or an interconnected distribution power system, pursuant to a determination in terms of section 34(1) of the Act, which is derived from—

- (a) new generation facilities;
- (b) an expansion of existing generation facilities;
- (c) existing generation facilities not previously supplying electricity to the national transmission power system or an interconnected distribution power system;
- (d) existing generation facilities through an extension of any existing agreement for the purchase of electricity capacity or electricity for an additional supply period to be defined in the power purchase agreement, or through entering into a new power purchase agreement for a supply period to be defined in terms of such new power purchase agreement; or
- (e) demand side reduction measures, including aggregation, management of demand side reduction, or energy efficiency measures;”.

“Independent Power Producer” or “IPP” means any person in which the Government or any organ of state **does not** hold a **controlling ownership** interest (whether direct or indirect), which undertakes or intends to undertake the development or creation of **new generation capacity** pursuant to a determination made by the Minister in terms of section 34(1) of the Act.
NEW GEN REGS

WHY IPPS?



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Why IPPs?

- IPPs can play an important part in providing new energy capacity – **deferred capital expenditure**
- Provides **ALL the funds** for the construction and operation of the power plant
- Bears **ALL the construction risks** of the project
- **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 the duration of the PPA
- **Only starts recovering its investment when the power plant starts generating power.**
- **Charges pre-determined and predictable prices**
- Bears **ALL the risk of reduced revenues** when the power plant is not operational or produces less power.
- **Commits upfront to economic development targets**

Efficient

On -
time

Within
budget

POLICY AND REGULATORY FRAMEWORK



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Policy and Regulatory Framework

POLICY FRAMEWORK

National Development Plan (NDP)

- Identifies long-term plans to meet SA's economic, social and environmental needs. Energy infrastructure is a critical component for economic growth.
- The NDP proposes diversity and alternative energy resources and energy supply options, both in terms of power generation and the supply of liquid fuels.

-
- 1998 White Paper
 - Long-term (2050) Integrated Energy Plan being developed -informed by key sectoral Masterplans and Road Maps (Gas, Liquid Fuels, Electricity).
 - Integrated Resource Plan (IRP) for electricity
 - The IRP requires a specific generation mix to meet the electricity needs and informs Ministerial Determinations on energy capacity.

REGULATORY FRAMEWORK

- Electricity Regulation Act, 2006 (Act No. 4 of 2006), as amended ("**ERA**")
- Electricity Regulations on New Generation Capacity ("**NewGen Regs**")
- National Energy Act, 2008 ("**NEA**") (Act No. 34 of 2008) - *requires development of IEP*
- National Energy Regulator Act, 2004 (Act No. 40 of 2004) ("**NERA**") Integrated Energy Planning (IEP) Processes
- New Determinations on the IPP Procurement Programmes

Policy and Regulatory Framework - Munis



MUNICIPAL PPP PROJECT CYCLE

Reflecting Municipal Financing Management Act, Act 56 of 2003
Municipal Public Private Partnership Regulations, and the
Municipal Systems Act, Act 32 of 2000

INCEPTION

- Identify project
- Notify government (National Treasury, DPLG) and determine scope of feasibility study and applicable process
- Appoint project officer
- Appoint advisor

FEASIBILITY STUDY

- Notify/consult stakeholders
- Needs analysis
- Technical options analysis
- Service delivery analysis
- Delivery mechanism summary and interim internal/external recommendation
- Project due diligence
- Value assessment
- Procurement plan
- 60 days prior to council meeting, give public, Treasury, DPLG 30 days to comment

Treasury Views and Recommendations: I

- Council decision whether to procure external option

PROCUREMENT

- Prepare bid documents including draft PPP agreement as per MFMA Chapter 11

Treasury Views and Recommendations: IIA

- Pre-quality parties
- Issue request for proposal with draft PPP agreement
- Receive bids
- Compare bids with feasibility study and each other
- Select preferred bidder
- Prepare value assessment report

Treasury Views and Recommendations: IIB

- Negotiate with the preferred bidder
- Finalise PPP contract management plan
- 60 days prior to signing of contract, give public, Treasury, DPLG 30 days to comment

Treasury Views and Recommendations: IIC

- Council passes resolution authorising execution of PPP contract
- Accounting officer signs PPP agreement

PPP CONTRACT MANAGEMENT

- Accounting officer responsible for PPP contract Management
- Measure outputs, monitor and regulate performance, raise effectively, and settle disputes

In line with National Treasury's Municipal PPP Manual, Module 4: PPP Feasibility Study, the feasibility study must include the following²²:

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COMPONENTS OF THE FEASIBILITY EVALUATION AND PRELIMINARY DESIGN STUDY

Introduction

- Submission requirements
 - Covering letter from the accounting officer requesting TVR I, where applicable
 - Executive summary
 - Introduction
 - Project background
 - Approach and methodology to the feasibility study and the MFMA requisites, and the obtaining of Treasury Views and Recommendations - 1.

Section 4: Submission requirements: Project due diligence

- Legal aspects
- Use rights
- Regulatory matters
- Site enablement
- Socio-economic and BEE
- Accuracy of measurements and recordings in feasibility study.
- Items such as:
 - Identify any operating, financial or other contractual commitments which are binding on the Client and advise on options for dealing with them within the framework of a proposed transaction structure;
 - Assess any contingent liabilities, including tax and environmental as well as need to be addressed in formulating a structure for private sector participation (in coordination with the Client and other consultants);
 - Review legal aspects of existing labor arrangements in the context of the proposed structure;
 - Review existing Client contractual arrangements to ensure compatibility with proposed arrangement;
 - Assist the Client in the development and presentation of recommendations for private sector participation in Project;
 - Make any other relevant recommendations relating to the Project;
 - Analyze and make recommendations on the initial concept for the Project and the risk allocation in draft Project Agreements, based on relevant precedents, and suggest and assist in making modifications as necessary following discussions with other members of the transaction team; must also be catered for in the legal due diligence.

Section 1: Submission requirements: Needs analysis

- Municipality's strategic objectives
- Budget
- Institutional analysis
- Output specifications
- Scope of the project

Section 2: Submission requirements: Technical solution options analysis

- Technical options considered
- Evaluation and assessment of each technical option
- Summary of evaluation and assessment of all technical options considered
- Recommendation of a preferred technical option

Section 3: Submission requirements: Service delivery options analysis

- Delivery options considered
- Evaluation and assessment of each delivery option
- Summary of evaluation and assessment of all delivery options considered
- Recommendation of a preferred delivery option(s)

Section 5: Submission requirements: Value assessment

- Undertake an 'internal assessment' (costs of alternative technologies, avoided costs)
- Technical definition of project
- Discussion on costs (direct and indirect) and assumptions made in producing cost estimates
- Detailed financial matrix based on technical options and risk assessment per option inclusive of operations and maintenance.
- Detailed model on power generation and consumption based on technology types
- Discussion on revenue and assumptions made on revenue estimates plus value added benefits
- Financial matrix of revenue streams
- Detailed Socio-Economic benefit of the PPP
- BEE targets
- Financial model for equity partnerships
- Discussion on all model assumptions made in the construction of the model, including inflation rate, discount rate, depreciation, budgets and MTEF, as appropriate
- Technical definition of project
- Discussion on proposed PPP type
- Proposed PPP project structure and sources of funding
- Payment mechanism (including incentives for any revenue streams e.g. power and heat generated)
- Discussion on all model assumptions made in the construction of the model, including inflation rate, discount rate, depreciation, tax and VAT
- Risk assessment
- Comprehensive risk matrix for all project risks
- Summary of the municipality's retained and transferable risks
- Summary of results: NPV
- Summary of results: NPV, key indicators
- Sensitivity analyses
- Statement of affordability
- Statement of value for money, if appropriate
- Recommended procurement choice
- Information verification
- Summary of documents attached in Annexure 1 to verify information found in the feasibility study report

Section 6: Statement of compliance with the comments and representations received in response to MFMA section 120(6)(b) invitation to comment, as appropriate

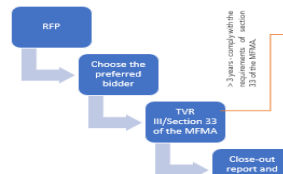
Section 7: Statement of views and recommendations received in response to any required MFMA section 120(6)(c) solicitation

Section 8: Submission requirements: Outline the Procurement Plan

Annexures

- Annexure 1: Statements for information verification and sign off from the Transaction Advisor to the project
- Annexure 2: Letter of concurrence from CFO of municipality
- Annexure 3: Risk assessment and comprehensive risk matrix
- Annexure 4: Document list (list of all documents related to the project, where they are kept, and who is responsible for ensuring that they are updated)
- Annexure 5, 6: Attach as annexure summaries of comments or representations received in terms of the MFMA section 120(6)(b) public notice and in terms of the MFMA section 120(6)(c) request for views and recommendations.
- NB: Pricing must take into consideration all aspects of the work required per heading mentioned above in addition to the special requirements highlighted in the objective.

The PPP Procurement process is as follows:



Section 33 of the MFMA

- (1) A municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if:
 - (a) the municipal manager, at least 60 days before the meeting of the municipal council at which the contract is to be approved;
 - (b) has, in accordance with section 21A of the Municipal Systems Act -
 - (aa) made public the draft contract and an information statement summarising the municipality's obligations in terms of the proposed contract; and
 - (bb) invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract; and
 - (c) has solicited the views and recommendations of -
 - (aa) the National Treasury and the relevant provincial treasury;
 - (bb) the national department responsible for local government; and
 - (cc) if the contract involves the provision of water, sanitation, electricity or any other service as may be prescribed, the responsible national department;
 - (b) the municipal council has taken the following into account -
 - (i) the municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
 - (ii) the impact of those financial obligations on the municipality's future municipal tariffs and revenue;
 - (iii) any comments or representations received from the local community and other interested persons; and
 - (iv) any written views and recommendations on the proposed contract by the National Treasury, the relevant provincial treasury, the national department responsible for local government and any national department referred to in paragraph (a)(i)(cc); and
 - (c) the municipal council has adopted a resolution in which -
 - (i) it determines that the municipality will incur a significant capital investment or will derive a significant financial economic or financial benefit from the contract;
 - (ii) it approves the entire contract exactly as it is to be executed; and
 - (iii) it authorises the municipal manager to sign the contract on behalf of the municipality.

Requirements for Munis in terms of the New Gen Regs (including proposed amendments)

Municipality may apply to the Minister to establish new generation capacity in accordance with the integrated resource plan, and such application must-

(a) be accompanied by a detailed feasibility study as contemplated in sub-regulation (2);

(b) demonstrate sound financial standing of the Municipality; and

(c) be aligned to the Integrated Development Plan of that Municipality

5. Feasibility studies

- (a) the anticipated cost of the proposed new generation capacity;
- (b) the proposed allocation of financial, technical and operational risk between the prospective buyers and the seller, and between the seller and the NTC or the distributor, as the case may be;
- (c) the demonstration of the anticipated value for money to be achieved through the new generation capacity project;
- (d) the material legal, financial and technical requirements including consents that will be required in order to procure the new generation capacity; and
- (e) whether the appropriate seller should be Eskom as part of its services as the national electricity producer, another organ of state or an IPP.²³

"sound financial standing" means that the financial commitments to be incurred by an organ of state acquiring new generation capacity can be met by funds:

- (a) designated within the organ of state's existing budget; or
- (b) destined for the organ of state in accordance with the future budgetary projections for the institution.

This requirement must be determined in consultation with NT's requirements

Thereafter, the PPP Contract Management stage.

4

Changing structure of SA's ESI

Munis

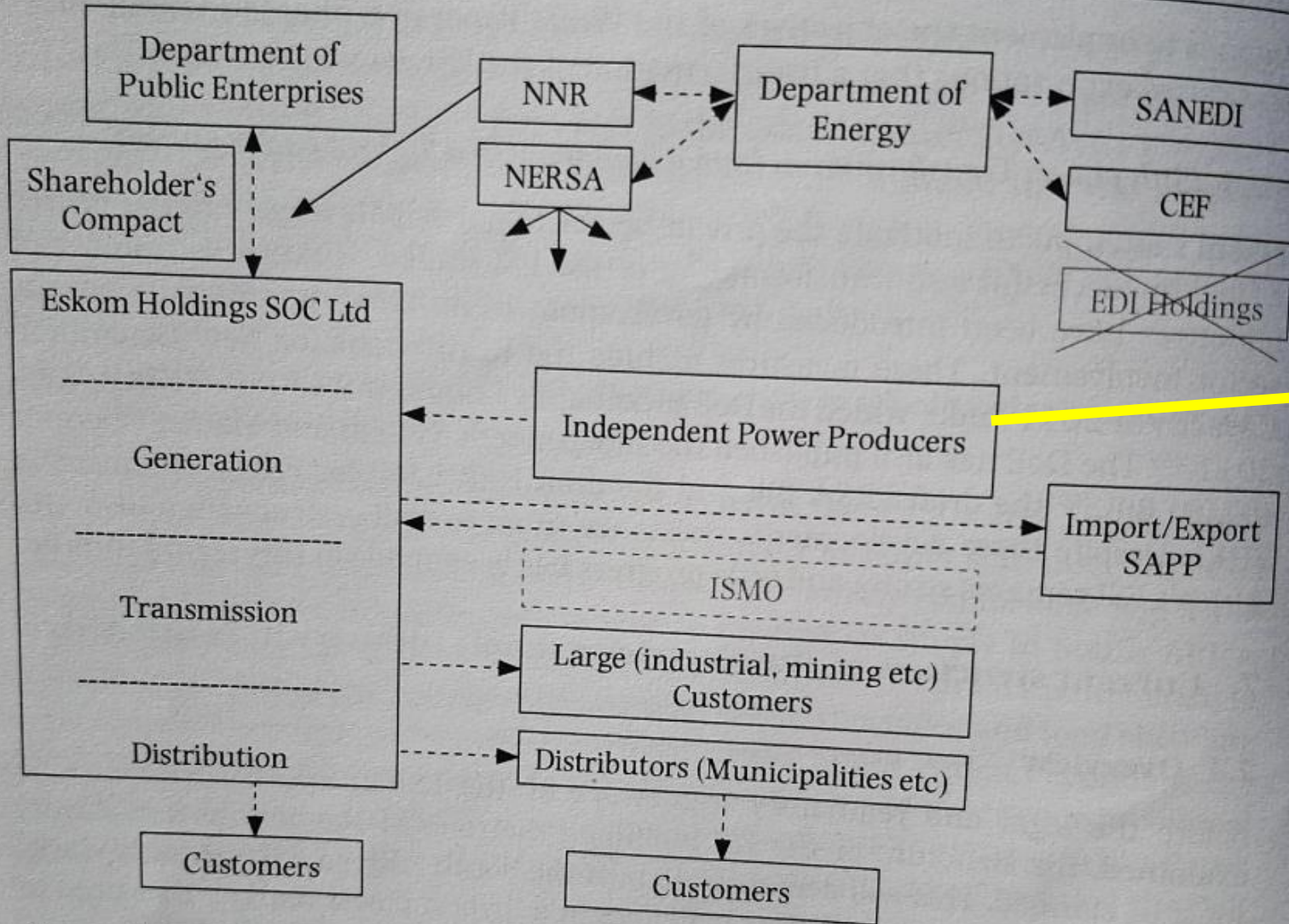


Figure 5 Structure of South Africa's ESI

IPPPP PROCUREMENT DESIGN, PROCESS & REQUIREMENTS – REIPPPP EXAMPLE



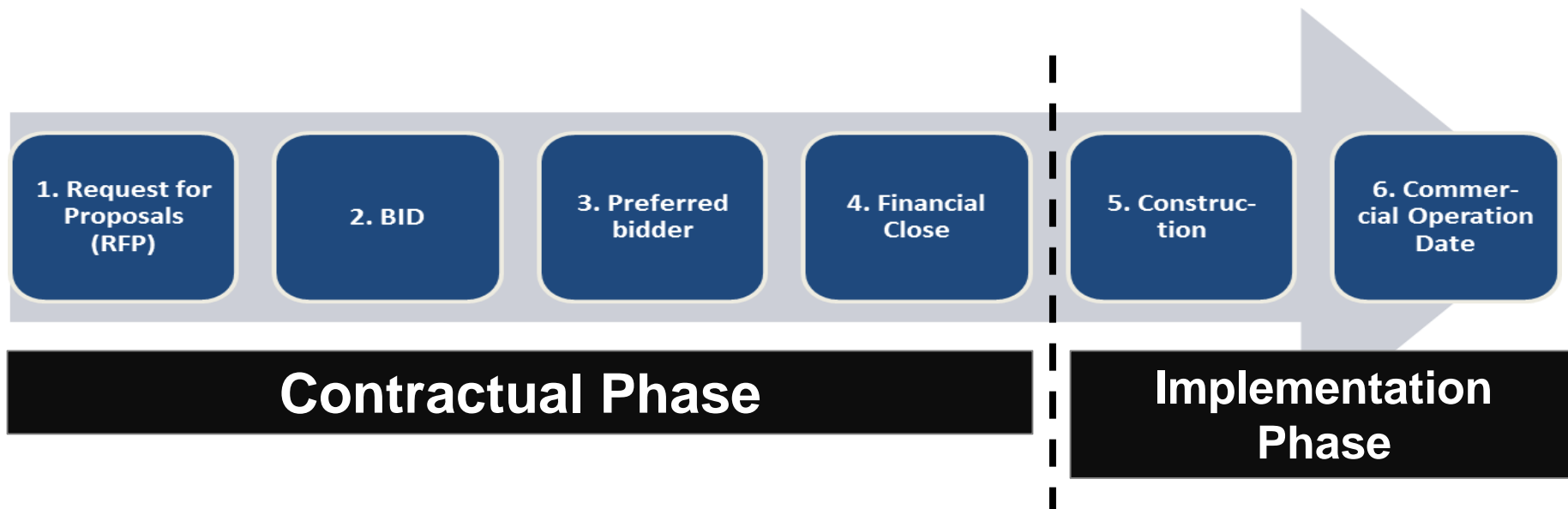
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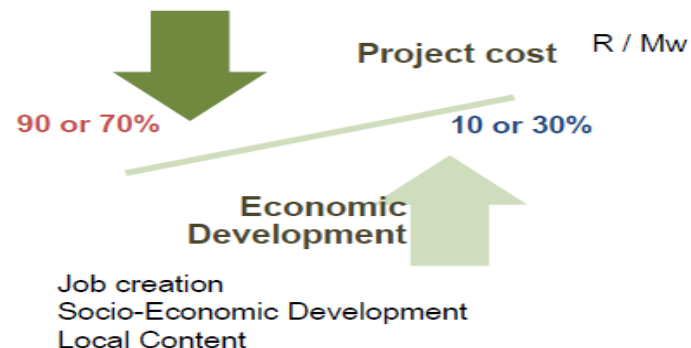
Procurement Process – REIPPP

Stages in each Bidding Window



Two step process -
criteria for preferred
bidder selection

QUALIFYING BIDS ARE SUBJECT TO A COMPARATIVE
EVALUATION

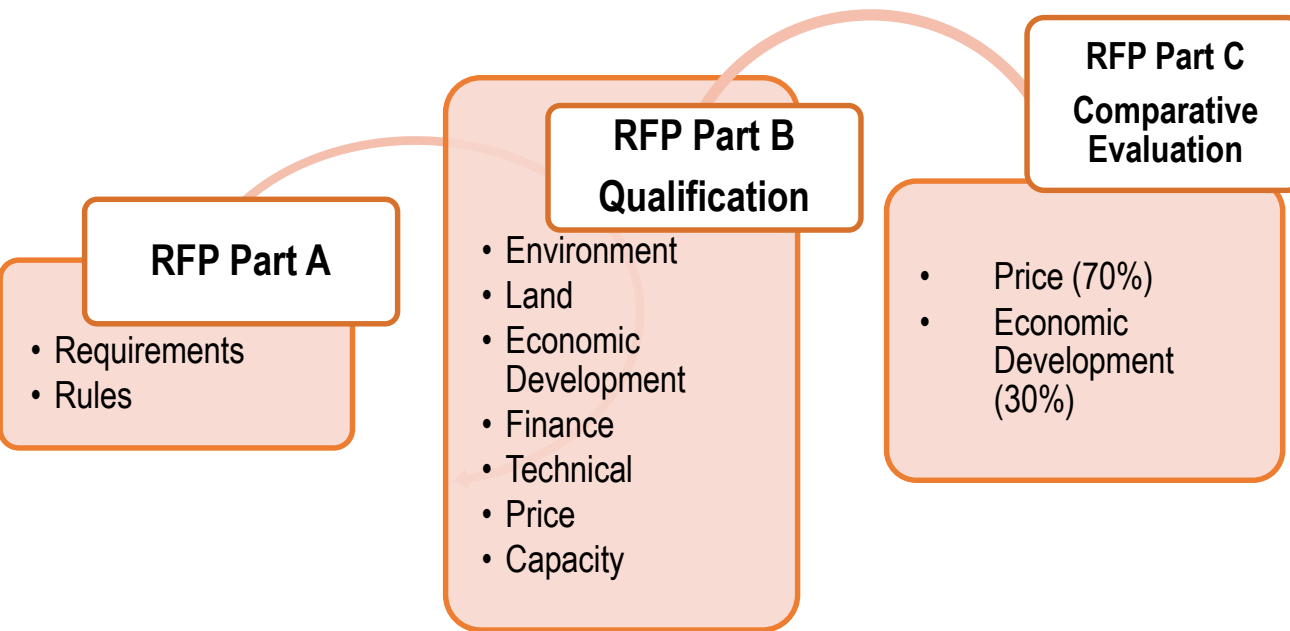


(IPP Office Presentation)

Procurement Process – REIPPP

**3 part
competitive
process:**

Procurement Pack



Power Purchase Agreement

Implementation Agreement

Procurement Process – REIPPP

QUALIFICATION:

- Secured land rights to the site
- Certain permits in place, most notably environmental authorisation
- Project structure finalised, complete with technology suppliers, financiers (both equity and debt); including BEE ownership
- Fulfilled a range of technical requirements such as a yield assessment (not < 12 months of measurements or data)
- Met minimum ED requirements such as job creation / localisation;
- Offered tariff that is = or < the technology tariff cap R/kWh (if applicable) and
- Provided a bid guarantee to Government.
- **Bidders with the highest combined price and economic development scores are selected as the preferred bidders within the technology MW allocation to supply the capacity allocation for the bid round.**

EVALUATION

Independent Bid Evaluation Committee convened focused on the following **Evaluation Streams:**

Legal Environment

- ✓ Environmental Authorization

Legal Land

- ✓ Land rights
- ✓ Notarial lease registration
- ✓ Proof of land use application

Legal Commercial

- ✓ Acceptance of the PPA
- ✓ Project structure

Economic Development

- ✓ Contributor status level
- ✓ Compliance with thresholds

Financial

- ✓ Full and partial price indexation
- ✓ Financial proposal

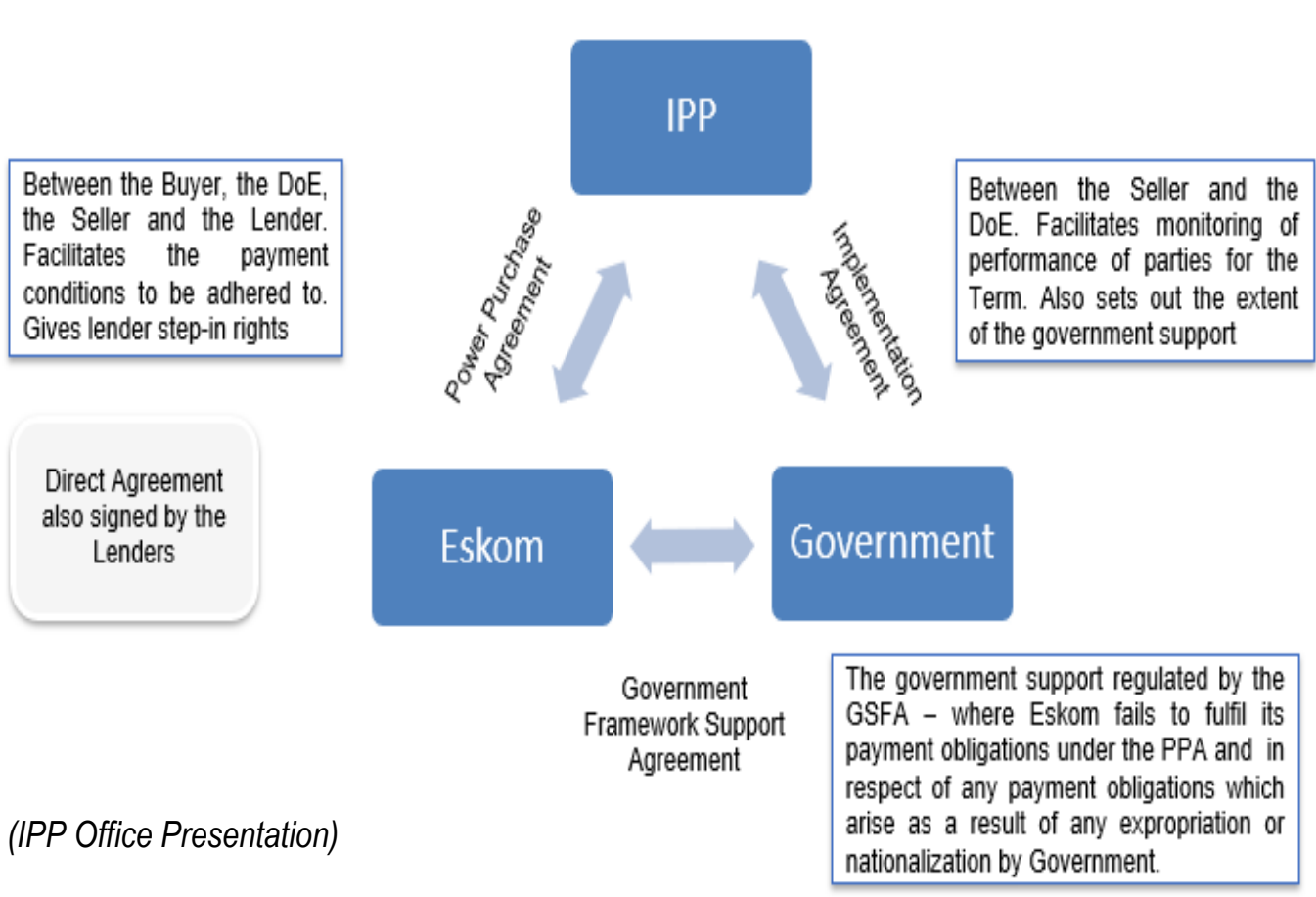
Technical

- ✓ Eligibility
- ✓ Energy resource
- ✓ Technical proveness

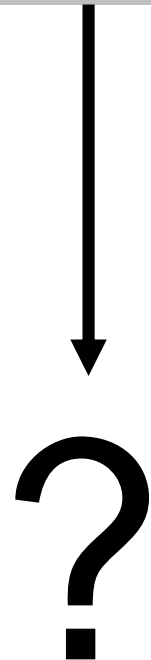
PREFERRED BIDDERS

- Preferred Bidders selected
- BAC to approve
- Licence application to NERSA within 14 days of appointment with required docs attached

Contractual Arrangements – REIPPP



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(IPP Office Presentation)

Opportunities for Munis?

Table 5: IRP 2019

	Coal	Coal (Decommissioning)	Nuclear	Hydro	Storage	PV	Wind	CSP	Gas & Diesel	Other (Distributed Generation, CoGen, Biomass, Landfill)
Current Base	37 149		1 860	2 100	2 912	1 474	1 980	300	3 830	499
2019	2 155	-2373					244	300		Allocation to the extent of the short term capacity and energy gap.
2020	1 433	-557				114	300			
2021	1 433	-1403				300	818			
2022	711	-844			513	400	1000	1600		
2023	750	-555				1000	1600			500
2024			1860				1600		1000	500
2025						1000	1600			500
2026		-1219					1600			500
2027	750	-847					1 600		2000	500
2028		-475				1000	1 600			500
2029		-1694			1575	1000	1 600			500
2030		-1050		2 500		1 000	1 600			500
TOTAL INSTALLED CAPACITY by 2030 (MW)	33364		1860	4600	5000	8288	17742	600	6380	
% Total Installed Capacity (% of MW)	43		2.36	5.84	6.35	10.52	22.53	0.76	8.1	
% Annual Energy Contribution (% of MWh)	58.8		4.5	8.4	1.2*	6.3	17.8	0.6	1.3	

	Installed Capacity
	Committed / Already Contracted Capacity
	Capacity Decommissioned
	New Additional Capacity
	Extension of Koeberg Plant Design Life
	Includes Distributed Generation Capacity for own use

Munis



NT: CSP NEXT STEPS



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Outcomes of High-Level Note

Outside of the municipality

New Generation Capacity **outside
of the Municipality**



National IPP Procurement Programme
where Muni is either buyer, procurer or
generator in section 34 determination.

Within the municipality

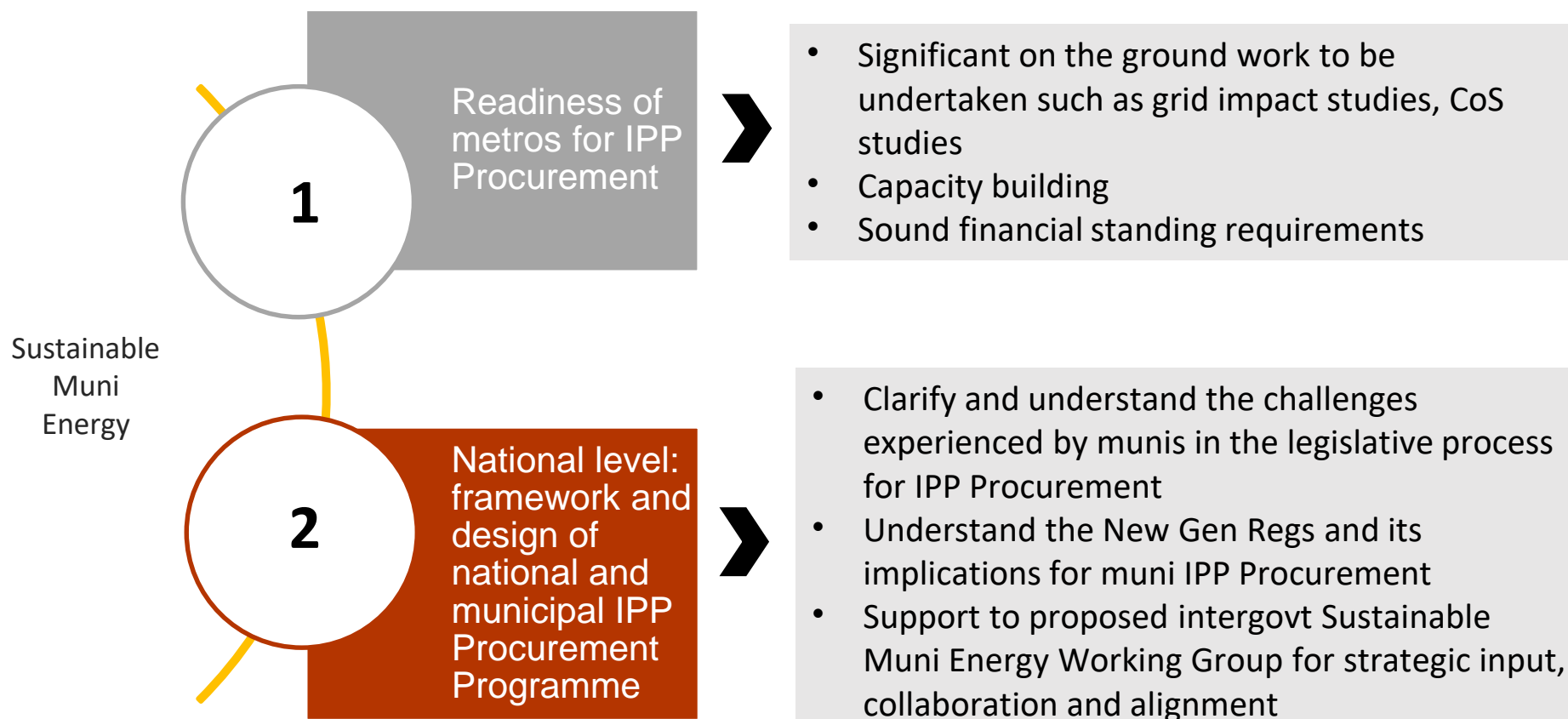
Muni IPP
Procurement
Programme

Own
generation

New
Generation
Capacity
**within
Municipality**



Outcomes of High-Level Note



Steps underway

NT CSP assistance:

Readiness of metros for procurement of new generation capacity

National Level: framework and design to facilitate procurement of new generation capacity

ACTIVITIES UNDERWAY

Conduct / update CoS studies, grid impact studies, energy strategies and master plans etc.

Facilitated introductions with e.g. IFC for technical assistance to metros

Capacity building initiatives

Support to proposed intergovt Sustainable Muni Energy Working Group for strategic input, collaboration and alignment on muni energy issues including muni IPP Procurement process

Working with internal NT working group and DMRE on proposed amendments to New Gen Regs of ERA – awaiting update

Legal and regulatory project to undertake a gap analysis as well as outline the legislative process, providing clear guidance on procurement by municipalities – will be issued as a MFMA circular

Legislative roadmap for different scenarios:

- A. National Municipal IPP Procurement Programme (assumed as being similar to the Renewable Energy Independent Power Producers Procurement Programme (“REIPPPP”) with necessary differences which would be applicable to municipalities);
- B. Municipal IPP Procurement Programme (IPP is located within the municipality) where the municipality would be the procurer and the buyer with potential IPPs located within the municipality;
- C. Municipal IPP Procurement Programme (IPP is located within the municipality on a municipal owned site) where the municipality would be the procurer and the buyer with potential IPPs bidding for a project to be located on municipal land;
- D. Municipality own generation whether in the municipal jurisdiction or outside the municipal jurisdiction;
- E. Municipality owned generation that is able to supply surrounding municipalities
- F. Multi-buyer where municipality is one of more than one buyer; and
- G. A pool of municipalities purchasing from one IPP or a pool of IPPs
- H. Other

Designing IPP Procurement Programme

Assistance to clarify and to understand the challenges experienced by metros in the procurement process

Concept design	Considerations	Agreements	Fiscal Framework
<ul style="list-style-type: none"> Requirements & rules Legal requirements Financial Technical ED Comparative evaluation – price/ED 	<ul style="list-style-type: none"> Lessons learnt from REIPPPP Understanding stumbling blocks for private sector investment Understand risk allocations & mitigations Exploring incorporating a different regime e.g. CfD 	PPA, Implementation Agreement(?), Direct Agreement, Connection Agreements	ToR - alternative models for clean energy investment not reliant upon fiscal support through the use of government guarantees

Muni Procurement of New Gen Capacity

Benefits of IPP Procurement in Municipality

Climate change mitigation

Deferred capital expenditure

Cohesive localised economic development, socio-economic development, enterprise development and development of women and youth

Procure at a cost equal to or lower than Eskom/ value for money

Retention of grid connected customers

Capacity building and a rolling programme

Depending on site, productive use of land

Considerations

Clear and coherent policy

Sound financial standing of municipalities – no government guarantees

Bankable projects, equitable risk allocations

Competitive, transparent, efficient process

Value for money

Institutional capacity and rolling programme

THANK YOU

QUESTIONS?