



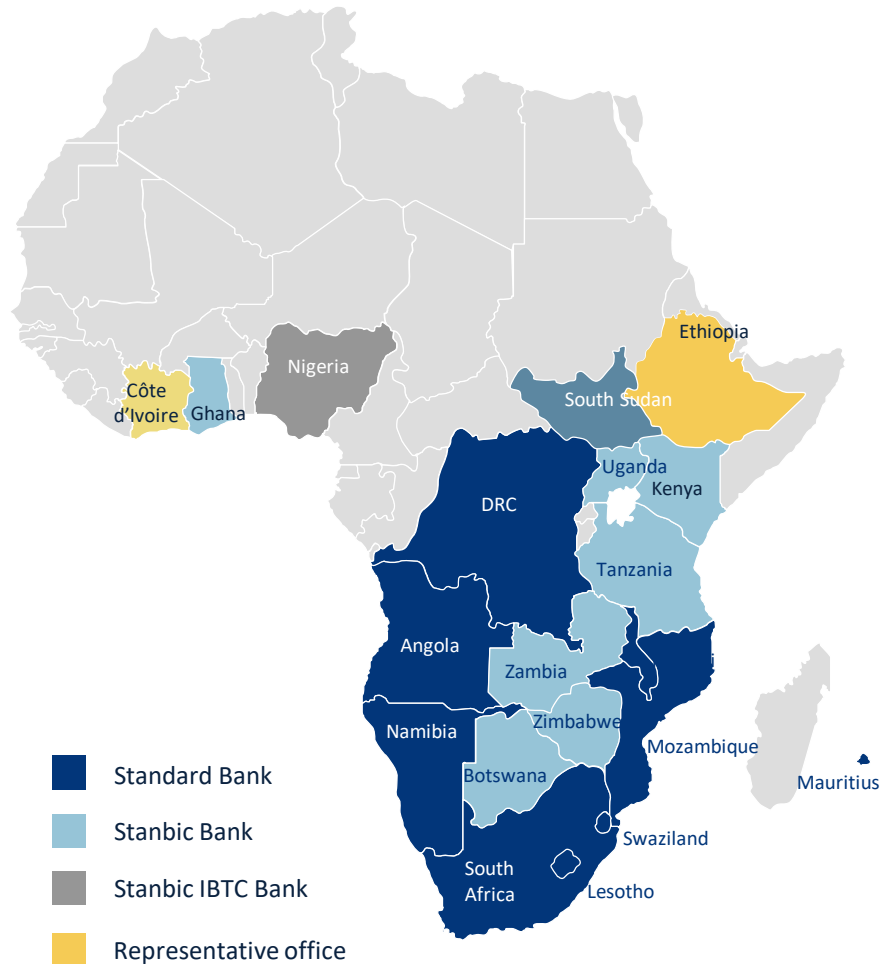
# **RISK MITIGATION IPP PROCUREMENT PROGRAM**

**2000MW TOWARDS ADDRESSING THE SUPPLY GAP**



# INTRODUCTION TO STANDARD BANK

Local on-the-ground expertise supported by a strong retail presence



Country	Standard Bank branches*	ATMs	Corporate Banking	Retail Banking	Investor Services	Investment Banking
South Africa	632	7,636	✓	✓	✓	✓
Angola	27	31	✓	✓		✓
Botswana	11	26	✓	✓	✓	✓
Côte d'Ivoire	-	-	-	-	-	✓
DRC	5	-	✓			✓
Ethiopia	-	-	-	-	-	-
Ghana	34	67	✓	✓	✓	✓
Kenya	24	43	✓	✓	✓	✓
Lesotho	17	77	✓	✓		✓
Malawi	25	64	✓	✓	✓	✓
Mauritius	1	-	✓	Private clients	✓	✓
Mozambique	42	93	✓	✓	✓	✓
Namibia	47	166	✓	✓	✓	✓
Nigeria	179	390	✓	✓	✓	✓
South Sudan	1	1	✓	✓		✓
Swaziland	10	62	✓	✓	✓	✓
Tanzania	10	33	✓	✓	✓	✓
Uganda	94	174	✓	✓	✓	✓
Zambia	22	82	✓	✓	✓	✓
Zimbabwe	19	27	✓	✓	✓	✓
<b>TOTAL</b>	<b>1,200</b>	<b>8,972</b>	✓	✓	✓	✓

\* Includes service centers and access banking centers



## RISK MITIGATION RFP OVERVIEW - STANDARD BANK PERSPECTIVE

- The RMIPPP designed to procure **2 000MW**s of new generation; needs to be **Dispatchable power**, no specific technology specification, however nature of RFP and technical requirements lends more to thermal than renewable solutions
- As such projects may utilise Fuel to produce energy output and may comprised of more than one Facility and project site; we anticipate some bidders will bid hybrid projects of gas and renewables while renewables and battery solutions appear to be complex and costly
- The RMIPPP is separate from and does not include the MWs which are being procured directly by Eskom under its short term power producer's programme or Bid Date 5 of REIPP for example
- Projects must be **new generation capacity**, brownfield sites may be used but all equipment and machinery used for generation of electricity need to be decommissioned, a new facility need to be built, however infrastructure eg. Roads, rail, buildings and storage facilities may be retained
- **Maximum** contracted capacity: 450MWs and a **minimum** contracted capacity of 50MWs
- Implementation Agreement and **Government support** of Eskom is on the table – similar form to REIPP
- Timelines are tight as the programme is intended to plug the supply gap and supply power to Eskom before 30 June 2022
- In addition, design of RFP is to assist with Eskom challenges such as grid stability as all IPPs need to provide these ancillary services
- Engagements **with law firms, technical advisors, clients and the oil and gas team** has guided some of our thinking and views on the RfP to date



## FIRST IMPRESSIONS



### *First impressions*

- 2 000 MW – dispatchable power biased towards fuel-based solutions;
- Emergency procurement - Fast bidding process targeting COD by mid 2022;
- **Costly and Complex** bidding process and onerous on bidders & private sector;
- Timing challenges – very tight timelines towards COD with harsh penalties
- Technical requirements onerous
- Good intentions for program to plug the supply gap and support economic growth
- **Largely bankable** from a lender perspective
- Environmental and other authorization would need to be in process already in order to be able to bid and meet timeframes
- Risk allocation largely inline with REIPP
- Tariff mechanism complicated and bidders to analyse profitability given 50% capacity payment for non-dispatchable capex and fixed O&M costs
- **Severe consequences for being late** – 6 days on PPA tenor lost for every day late plus 6 month long stop – although lenders have more time under direct agreement

### *Fast Facts*

- 20 year PPA
- 90:10 weighting of price versus economic development
- 40% local content requirement
- 49% SA Equity participation with 30% black ownership
- No requirement for local community ownership
- Black ownership of EPC and O&M Contractor 25%
- Equity lock in: 5 years post COD
- Fuel supply contract: Need to be in place for a minimum of 6 years
- Limited ability to switch fuel source
- 72 hour full load test – this makes battery options a challenge
- Decommissioning reserve required
- 2% Development fee
- Non-negotiability of PB PD Undertaking, PPA, Implementation Agreement, Direct Agreements, Connection Agreements and Independent Engineer Agreement. (as per REIPP)



## TECHNOLOGY SOLUTIONS

### **Gas - LPG**

- LPG is by far the preferred option based on early discussions; these will be largest LPG plants globally
- Two main sources of LPG (Sunrise in Saldhana & Petrodec in Richards Bay). Sunrise will need to do expansion to supply IPPs; long-term contract will be required

### **Renewables + Battery**

- 16 consecutive days of production between 5am and 21h30 continuous full load capacity test means a very large battery will be required to meet bid requirements
- In addition, bankability of battery storage is still in question and partnership/risk sharing with DFI would be necessary to fund
- Important to understand reference projects and appetite

### **Gas - LNG**

- Small scale (SA LNG) vs Large scale (Moz LNG)
- **Small scale LNG** : Coega likely location but no project may be far enough developed to provide certainty of gas by COD; not as competitive as large scale LNG but should be cheaper compared with LPG
- **Large scale LNG** : sufficient gas from Temane and Pande gas fields in Northern Mozambique which can be transported via ROMPCO until 2024 with Moz LNG (area 1 and area 4) expected to be replacement gas supply via FRSU in Maputo and via ROMPCO or ship in to Richards Bay

### **Hybrid**

- Some bidders are looking at renewables to act as fuel saver to the thermal power plant
- Renewable likely to be on a different site to thermal plant
- Complexity with renewables comes in with fuel sizing especially where capex needs to be invested to supply fuel.
- In addition, seamless integration of the two plants need to be considered so supply is continuous

**Competition within a Competition – constraint on gas supply and grid capacity**



## PART B : TECHNICAL REQUIREMENTS

- Project needs to be greenfield or on a cleared brownfield site; equipment needs to be new and have Original Equipment Manufacturer guarantees
- Project needs to have unconditional and irrevocable rights to any shared infrastructure
- Min 50MW; Max 450MW – but subject to there being availability and transmission evacuation capacity at the connection point
- Project must be designed for Dispatchable load operation and must be capable of operating continuously at reduced load or under cyclic duty daily between hours of 5:00 and 21:30
- Project Minimum Load Commitment must not be less than 50%
- Project must be fully dispatchable between the Mingen (Minimum Output Level) and 100% of Contracted Capacity
- Mingen cannot be greater than 25%
- Project Feasibility Study must be conducted and a confirmation and approval of the study by independent reviewer is required for bid
- Key Equipment proposed needs to have been used in at least 2 power projects (reference projects)
- Grid Connection Cost Estimate letter required (specified indicative cost and indicative timelines for grid connection)

### Battery Storage Technology considerations

- Require reputable technology suppliers
- Acceptable warranties
- Market knowledge and references
- Sponsors strategy and alignment with funding approach
- Clear alignment and synergies for commercial banks to partner with DFIs

### Risks

- Performance guarantees and warranties from creditworthy entities to address key technical risks
- Key technical risks are linked to capacity degradation
- O&M degradation curves well known and understood
- Most probably need a reserve account to cater for battery replacement
- Clear understanding of warranties
- Technology supplier appetite and involvement



## LENDER LETTER OF SUPPORT

- Preliminary due diligence completed to enable it to issue letter of support
  - Legal and technical reports – red flag should be sufficient
  - Review of EPC, O&M and Fuel Suppl heads of terms (including key equipment suppliers and subcontractors)
  - Review of Shareholder's Agreement and Equity Finance agreements
- Reviewed and accepts the commercial terms and risk profile presented in RFP, PB Undertaking, PPA, IA, DA, IEA and the Connection Agreement and any other applicable Project Document
- Success Payments are detailed in the Financial Model
- Project has preliminary credit committee approval
- Satisfied with conclusion of legal opinion of Bidder's legal advisor in respect of commercial structure of the Project, the Project Documents, the Environmental Authorisation, land use arrangements and the Water Use Rights for the Project
- No material issues arising from draft legal due diligence that may impact on achievement of Commercial and Financial Close
- Financial Model accurately reflects the terms of the Debt
- Whilst all commitments in the letter of support are doable, timing to achieve these conditions will be very challenging if not impossible
- Letter of support will be one of the key items addressed as a clarification question and request that the letter of support is amended so that the lenders are able to issue it
- Currently RFP requires the letter issued to be **substantially** in the form as per the Annexure



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