energy
Department:
Energy
REPUBLIC OF SOUTH AFRICA

FACTS SHEET
Bid Window 1: Coal Procurement Programme

1. **Introduction**

The purpose of this Note is to provide a short overview of the Coal Baseload IPP Programme (“the Coal Programme”). The Coal Programme was launched in December 2014 as the first baseload programme which allows the private sector to participate in the generation of capacity and energy through the utilisation of coal resources.

2. Background

2.1. On 15 December 2014, the Department issued the Request for Qualification and Proposals for New Generation Capacity under the Coal Programme ("**the RFP**");

2.2. The Coal Programme has been designed to consist of separate Bid Submission Phases. The RFP provides that 1 000 (one thousand) MW are available for allocation to Preferred Bidders under the First Bid Submission Phase, which bids were received on 02 November 2015;

2.3. Each Project must have a Contracted Capacity of not more than 600 (six hundred) MW;

2.4. Bidders are required, amongst other things, to have a minimum South African Entity Participation of 51 %, black ownership of 30 % and a weighted B-BBEE Contributor Status Level of 5 in respect of the South African Based Shareholders,

2.5. The Minister of Energy sought and obtained exemption from various requirements of the PPPFA and its Regulations to enable the Department to: (i) set forward looking commitments for B-BBEE and job creation (Economic Development); (ii) set thresholds for some of the Economic Development elements; and (iii) enable the sub-contracting of the project activities by the Project Company to its contractors who may be entities that have a B-BBEE status level that is not the same or better than that of the Project Company (in particular, foreign companies that would bring special skills, expertise and investment in the Projects). The required exemption from the relevant provisions of the PPPFA and its Regulations was granted by the Minister of Finance on 16 February 2016, in respect of the First and the Second Bid Submission Phases of the Coal Programme.

2.6. Projects submitted in the First Bid Submission Phase must be capable of beginning commercial operation before the end of December 2021.

3. Transfer of Risk under the Coal IPP Programme to the Private sector and Other Noteworthy Aspects

As part of the design of the Coal Programme key risk areas were identified and through the Power Purchase Agreement transferred to IPPs without affording the ability to seek tariff adjustment.

3.1. The tariff that is payable by the Buyer will be fixed on signature of the PPA for the duration of the PPA, and will escalate only at the Consumer Price Index in respect of all components other than the Fuel Charge Rate, and with reference to a basket of indices which are determinable (currently CPI plus 1%), in respect of the Fuel Charge Rate;

3.2. The risks of capital cost overruns or delays during construction, and operating costs overruns, including for coal, limestone and water after commercial operation, accordingly lie with the Seller, and the Seller is not entitled to adjust the tariff for any such overruns or delays;

3.3. The Seller assumes an ongoing obligation to maintain the Facility to ensure efficiency and compliance with the declared capacity, and in the event that the Facility is not maintained resulting in unscheduled outages, significant penalties are levied under the PPA;

3.4. The Seller's recourse to the Buyer for compensation for changes in law and other unforeseeable conduct during construction and operation is limited;

3.5. The Seller has full responsibility for the suitability of the Project Site, to discharge all environmental obligations in relation to the Facility and the Project Site and to discharge all obligations to decommission the Facility at the end of its life, pursuant to and in accordance with the applicable Consents and Environmental Laws;

3.6. With regard to decommissioning, the Seller is required to create a Decommissioning Reserve Account, which is insolvency remote for an amount which is sufficient to provide for the costs of decommissioning of the Facility and environmental liabilities;

3.7. The Coal and Limestone Supply Agreement/s are entered into between the Seller and its Coal and Limestone Supplier/s, and the Buyer has no exposure to ongoing mine operating costs and any residual environmental risks that arise in the mining of Coal and Limestone;

3.8. The Seller is only entitled to recover from the Buyer any Carbon Tax that is levied on it in respect of CO_2 emissions to the extent stated in the PPA. Sellers are not able to recover, as a pass through, any additional costs associated with Carbon Tax incurred for emissions in excess of the contractually agreed emissions stated in the PPA;

3.9. In addition to the above, the following pertinent issues are noteworthy in respect of the First Bid Submission Phase of the Coal Programme:

a) The two bids received are fully funded bids incorporating equity and debt sourced from a multiplicity of sources including the PIC, DBSA and IDC on favorable terms and conditions and debt funding tenors in excess of 18 years post COD;
b) One of the proposed Preferred Bidders is in close proximity to the Medupi power station as a mouth of mine project. For this Project a new mine will be developed resulting in the further creation of jobs in addition to those created specifically by the Project;
c) The Project to be undertaken by the proposed Preferred Bidder will provide further opportunity for the utilisation of the existing skills and industries developed as part of the construction of the nearby Eskom facilities;
d) In the case of one of the Projects, the utilisation of discard Coal is proposed thus resulting in the reduction of emissions emanating from discard coal dumps; and
e) The long term contractual arrangements dealing with the pricing and supply of Coal for the Projects presents a benchmark for similar arrangements in the industry.

4. Information In respect of the Recommended Preferred Bidders

Below we provide a summary of the pertinent information pertaining to the recommended Preferred Bidders.

4.1. The total Contracted Capacity of the recommended Preferred Bidders for the First Bid Submission Phase is 863.3 MW. The table below provides the breakdown of the proposed Contracted Capacity for each Preferred Bidder and the location of the respective Project.

Project Name	Province	Proposed Contracted Capacity (MW)
Project 1	Limpopo	557.3 MW
Project 2	Mpumalanga	306.0MW

4.2. Project 1 has a proposed Scheduled COD of March 2021 and Project 2 has a proposed Scheduled COD of December 2019.

4.3. The table below provides a breakdown of the Qualification Price and Evaluation Price that have been proposed by the recommended Preferred Bidders. The Qualification price was set at R 820 MW/h, which is the cap. The Qualification Price is adjusted with the cost of grid connection and Carbon Tax to get the Evaluation Price. As is evident from the table below both the recommended Preferred Bidders submitted prices below the Qualification Price stipulated in the RFP.

Project Name	Qualification Price (R/MWh)	Evaluation Price (R/MWh)
Project 1	R 809.55	R 1 015.23
Project 2	R 797.06	R 1 018.06

4.4. The DBSA and the PIC have committed to providing BBBEE funding of R 1 118 million and R 575 million, respectively, to the BBBEE equity members of Project 1. The PIC also has direct equity exposure of R 1 342 million to the Project 1. The IDC has committed to providing R 1 193 million to the BBBEE equity members of the Project 2. The DBSA has debt exposure of R 6 000 million in total for the two recommended Preferred Bidders of the First Bid Submission Phase. The BBBEE equity members participating in each Bid Response also contributed approximately R 348 million towards the Equity Finance required for the respective Projects from their own resources. In total the DBSA, IDC and PIC exposure in the First Bid Submission Phase is R 10 229 million, which represents 25.3 % of the Total Project Cost for the recommended Preferred Bidders.

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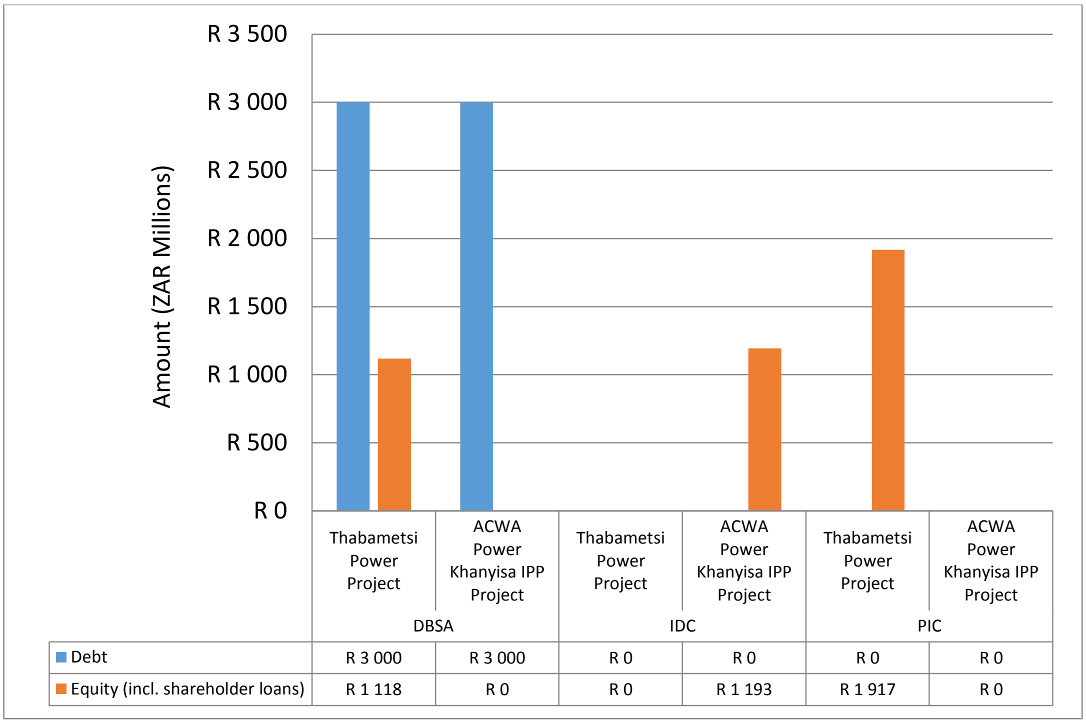

4.5. The table below provides a summary of the Total Project Costs indicating the debt and equity contributions including foreign equity.

	Total Funding* (ZAR Million)	Local Portion (ZAR Million)	Foreign Portion (ZAR Million)
Debt (incl. Mezz. Debt)	R 30 226	R 30 226	-
Equity	R 9 938	R 5 068	R 4 870
TOTAL	**R 40 164**	**R 35 294**	**R 4 870**

4.6. The table below provides a breakdown of the committed jobs for Citizens of South Africa during each of the Construction Period and the Operating Period for the recommended Preferred Bidders.

Project Name	Jobs (Citizens) during Construction	Jobs (Citizens) during Operations	Total
Project 1	5 163	9 183	14 346
Project 2	1 450	4 341	13 098
Total	**6 613**	**13 524**	**27 444**

4.7. The table below provides a breakdown of the jobs created per Province in respect of each of the Projects during both the Construction and Operating Periods for each Preferred Bidder.

Province	Jobs* during Construction Period	Jobs* during Operations Period	Total
Limpopo	5 163	9 183	14 346
Mpumalanga	1 450	4 341	13 098
TOTAL	**6 613**	**13 524**	**27 444**