Outlining the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP)

Empowerment Imperative

A presentation made at the Business Opportunities for Women Entrepreneurs in the Renewable Energy Sector Meeting

Southern Sun Hemmingway, Western Avenue
Ocean View, East London

…”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
1. Policy Background
2. What is the REIPPPP?
3. What is an IPP?
4. Why are IPPs a good option for Government?
5. Role of IPP Office
6. IPPPPP Procurement Design, Process & Requirements
7. The REIPPPP in the Eastern Cape
8. How is the REIPPPP empowering women?
9. Construction Phase Opportunities
10. Operations & Maintenance Business Opportunities
11. Concluding Remarks
1. **NDP:**
   - SA must invest in a strong network of economic infrastructure to support its economic & social goals.
   - 10,000 MW additional electricity capacity by 2019, against the 2010 baseline of 44,000 MW.

2. **IRP 2010:**
   - Energy mix to meet electricity needs of SA over 20 year horizon to 2030.
   - By 2030 – 17,800 MW of electricity from RE sources: 5,000 MW by 2019 + 2,000 MW operational by 2020.

3. **REIPPPP:**
   - A programme designed to respond to the call by the NDP & the IRP 2010 via renewable energy sources.
   - 6,422 MW procured from 112 IPPs in 7 rounds
   - 3,773 MW from 62 IPPs connected to the grid by end Dec 2017
What is the REIPPPP?

- Programme developed by DoE.

**Aim:**
- To secure electrical energy from private sector via renewable energy sources to add to the national grid.
- e.g. Solar PV, Onshore Wind, CSP, Small Hydro, Biomass, Landfill Gas.
- Also structured to contribute to broader national development objectives, specifically:
  - Job creation
  - Social upliftment
  - Broadening economic ownership

- 6,422 MW
- 112 IPP Projects
- 7 Bid Windows
- 3,773 MW; 62 IPP Projects connected to grid
- R 201.8 billion investment attracted
- 34, 841 job years for SA citizens

- R504.9 million SED Contributions
- R166.3 million ED Contributions
A **Company (Consortium)** established by a range of shareholders for the purposes of bidding for, constructing and operating an independent power plant. Typically the IPP Company structure could consist of:

- **Black Industrialists** (increasing shareholding with projects to be signed having an average of 40% shareholding)
- **Other South African shareholders**
- **Community Trusts** representing the local communities where the projects are located
- **Foreign shareholders** bringing foreign direct investment (FDI) that improves the country’s balance of payments as well as expertise
IPPs can play an important part in providing new energy capacity within the current constraints experience by Eskom and the Fiscus as IPPs:

- Provides **ALL the funds** 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.
Where does the IPP Office fit in all this?

Role of IPP Office

The activities of the office are in accordance with:
- the capacity allocated to renewable energy and non-renewable generation in the Integrated Resource Plan (IRP) 2010;
- subsequent ministerial determinations; and
- DoE support service requirements

Services provided:
- Professional advisory services
- Procurement management services
- Monitoring, evaluation and contract management services

Purpose:
Delivering on the IPPPPP objectives
IPPPP Procurement Design, Process & Requirements
IPPs are selected in a multi-stage bidding process comprising of 6 stages

- **Stages in each Bidding Window:**

  1. Request for Proposals (RFP)
  2. BID
  3. Preferred bidder
  4. Financial Close
  5. Construction
  6. Commercial Operation Date

**Contractual Phase**

Two criteria for preferred bidder selection:

- Economic Development (30 %)
- Price of power per kWh (70 %)
The Procurement Document Pack contains the following:-

**Request for Proposals**
- Part A: General Requirements and Rules
- Part B: Qualification Criteria
- Part C: Economic Development

**Power Purchase Agreement**
- Contract between the IPP and Eskom

**Implementation Agreement**
- Contract between the IPP and the Department
- Obligation for IPP to deliver on economic development obligations
- On buyer default – Department to pay the IPP. Approval of the Minister of Finance required
What the Request for Proposals consists of:

Request for Proposal (RFP) – 3 part process

RFP Part A
- Requirements
- Rules

RFP Part B Qualification
- Environment
- Land
- Economic Development
- Finance
- Technical
- Price
- Capacity

RFP Part C Comparative Evaluation
- Price (70%)
- Economic Development (30%)
  - Job creation
  - Local content
  - Preferential Procurement
  - Enterprise Development
  - Socio-economic development

What the Request for Proposals consists of:
- Job creation
- Local content
- Preferential Procurement
- Enterprise Development
- Socio-economic development
For qualification, bidders should be able to demonstrate that they have:

- Secured land rights to the project site;
- Certain permits in place, most notably environmental authorisation;
- The whole 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 based on at least 12 months of measurements or data;
- Met minimum economic development requirements such as job creation and localisation;
- Offered an electricity tariff that is equal to or less than the technology tariff cap R/kWh (if applicable); and
- Provided a bid guarantee to Government.

Qualifying bids are subject to a comparative evaluation. 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.
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

Evaluation conducted in a ‘closed’ evaluation environment, under strict security conditions.

Members of the evaluation team are ‘ring-fenced’ within each of their firms.

Declaration of interest by all firms and individuals involved in the evaluation process.

Reports prepared by each discipline reviewed by independent review teams.

Overall process reviewed by independent governance review teams.
**IPP Procurement Process**

**Step 4: Preferred Bidders**

**After Evaluation:**
- Motivation and list of Preferred Bidders are submitted by the IPP Office to the DoE
- DoE Bid Adjudication Committee considers and approves preferred bidders
- Preferred Bidders are announced and appointed by the DoE
- Preferred Bidders must submit a license application, with all required supporting documentation, to NERSA within 14 days of their appointment

**Required documentation for NERSA license application includes:**
- preferred bidder’s appointment letter from DoE;
- connection quotation from Eskom including single line diagrams;
- water availability confirmation;
- waste management license;
- South African Civil Aviation Authority (SACAA) clearance letter;
- environmental authorization;
- financial model;
- evidence of land ownership or lease option agreement;
- fuel supply agreement;
- connection agreement;
- power purchase agreement (PPA)
IPP Procurement Process
Approvals to be obtained for signing of projects

• Approval from Minister of Finance
  — PFMA section 66 and 70 to bind the National Revenue Fund

• Government Support Framework Agreement (GSFA) in support of Eskom, signed by
  — Minister of Finance, Minister of Public Enterprises, Minister of Energy
  — Eskom

• NERSA approval
  — Letter from NERSA to Eskom confirming that bid windows / projects will be covered under the MYPD or Cost Recovery Mechanism

• Eskom Approval
  — Eskom Board Approval for bid windows / projects and which Eskom confirms through a letter to Minister of Energy
REIPPPP in the Eastern Cape


- **22 165 GWh²**
  - REIPPPP² Actual energy contributed to National Grid
- **7 783 GWh²**
  - Eastern Cape (35%) contributed to the National Grid
  - of which **7 258 GWh²**
    - Wind (93%)
- **526 GWh²**
  - Solar PV (7%)

- **15%**
  - of the Renewable Energy production in Eastern Cape is available during peak hours (as per Megaflex tariff)

- **R 46.8 billion**
  - REIPPPP Total payment to all IPPs
- **R 11.4 billion**
  - Eastern Cape (24%) total payments to IPP’s
  - of which **R 10.1 billion**
    - Wind (88%)
- **R 1.4 billion**
  - Solar PV (12%)

- **22.5 Mtons CO₂**
  - equivalent RE emissions reduction achieved relative to Eskom generated power (7.9 Mtons CO₂² in Eastern Cape)
REIPPPP in the EC: Key Highlights

17 projects procured = 1,509 MW
(16 OW; 1 SPV)
13 projects operational:
(1,066 MW)
- 1 SPV
- 12 OW

R33.8 billion (BW1-4, 1S2 and 2S2) = 16.8% of Total IPP investment

5,299 job years created by IPPs in the EC

Local communities hold 17% equity;
Black South Africans 33% of shares across entire supply chain (BW1-3)

SED Commitments:
R4.5 billion over 20 years (22% of total)

ED Commitments:
R1.2 billion over 20 years (24% of total)
How is the REIPPPP empowering women in business?

<table>
<thead>
<tr>
<th>Economic Development Element</th>
<th>Minimum Threshold</th>
<th>Maximum Target</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Job Creation</td>
<td>12% - 50% (various indicators)</td>
<td>20% - 80% (various indicators)</td>
<td>25%</td>
</tr>
<tr>
<td>2 Local Content</td>
<td>40% - 45% (differs by technology)</td>
<td>65%</td>
<td>25%</td>
</tr>
<tr>
<td>3 Ownership (Black Ownership Requirement)</td>
<td>12% of project shareholding</td>
<td>30% of project shareholding</td>
<td>15%</td>
</tr>
<tr>
<td>Ownership (Local Community Ownership)</td>
<td>2.5% of project shareholding</td>
<td>5% of project shareholding</td>
<td></td>
</tr>
<tr>
<td>4 Management Control</td>
<td>0%</td>
<td>40%</td>
<td>5%</td>
</tr>
<tr>
<td>5 Preferential Procurement</td>
<td></td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>B-BBEE Procurement</td>
<td>0%</td>
<td>60%</td>
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<tr>
<td>QSE and EME Procurement</td>
<td>0%</td>
<td>10%</td>
<td></td>
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<tr>
<td>Women Owned Vendor Procurement</td>
<td>0%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>6 Enterprise Development (ED)</td>
<td>0%</td>
<td>0.6% of project revenue</td>
<td>5%</td>
</tr>
<tr>
<td>7 Socio-Economic Development (SED)</td>
<td>1% of project revenue</td>
<td>1.5% of project revenue</td>
<td>15%</td>
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<tr>
<td>Total</td>
<td></td>
<td>100%</td>
<td></td>
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<tr>
<td>Total Points</td>
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<td>30</td>
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</tr>
</tbody>
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KEY AREAS OF BENEFIT

ALT. AREAS
How is the REIPPPP empowering women (Jobs & Business Opportunities)?

To date, IPPs have employed a total of **3 898** women in the country:
- **2 758** during construction
- **1 139** during Operations

Of these, **673 (17.3%)** were women from the EC.

To date, the Value of Women Owned Vendor Procurement in the country is **R1.8b**
Of this, **R378m (21%)** went to women owned vendors from the EC.
How is the REIPPPP empowering women (Higher Education)?

IPPs have supported 600 bursaries in total (equivalent to R66.5m). Of this, 314 went to women.

30 (9.5%) women from the EC have received bursaries from IPPs (equivalent to R3.1 m).
Overview of Business Opportunities: Construction Phase

- Majority spend goes to the EPC contractor with a spend of about R1b+ over 18 months, on average, consisting of imports and local content.
- It is in the local content, in particular balance of plant (civils, electrical & other services on site) where the opportunities lie.
- The 5% target for Women Owned Vendors is equivalent to approximately R25million per project.

• However:
- Construction phase performance will reflect SA construction sector trends.
- Women owned businesses are mainly in services e.g. travel, accommodation, catering, cleaning, security, etc. - not biggest opportunity for spend.
- O&M contracts are the largest for IPPs
- Value of services required may be smaller than construction but the terms of contracts are longer (3+ years)

**Common Opportunities:**
- HV Maintenance
- Security Services
- Facilities Management (cleaning offices, provision of office supplies)
- Vegetation Control
- Panel Washing (for solar PV plants)
- Waste Removal
- Fleet Services
- Specialised Equipment & Tools
- Maintenance of internal roads
- Supply of PPE
- Economic Development Reporting
- SED & ED Implementation
Concluding Remarks

- Dream Big
- Be as bold as the men are
  - Dare to invest in male dominated fields e.g. RE
- Partner with more experienced firms/companies to gain experience
- Research on & study the RE sector & get to understand it
- Cost realistically
Thank You