



Remarks by the Head of the IPP Office

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Director-General, Department of Energy

Senior Officials from Government Departments, State Owned Enterprises and Development Finance Institutions

Our private sector partners

1. Ladies and gentleman, there is buzz in the room. Despite events overnight, this is good. I am reminded of the reward of the hard working, diligent and committed honey bee when I look back at our journey of the past two years. Collectively, we have demonstrated the success of the Independent Power Producer Procurement Programme, specifically our renewable IPP programme.
2. **The 27 new renewable energy IPP projects will be building on the remarkable achievements that we have made through the implementation of the Renewable Energy IPP Programme to date.** Through the REIPPPP we have proved that we can quickly help reduce the country's reliance on fossil fuels, that we can stimulate an indigenous renewable energy industry and that we can contribute to socio-economic development and environmentally sustainable growth. Today, our REIPPPP approach has become an export product in itself,

with an increasing number of countries in Africa and elsewhere in the world, adopting and adapting the South African model to suit their particular conditions.

3. Socio-economic development and institutional participation have also changed over the past two and a half years in South Africa since the beginning of procurement process of Bid Window 3.5 and 4. Thus late in the procurement process, Government has challenged its partners in the 27 projects to deliver even more for economic transformation than at bid stage and at a lower price. I want to thank you all for your cooperation during the negotiation of offers over the last few months and that you have responded to the challenge. I am pleased with the negotiation process which has been fruitful and that the 27 projects will deliver substantial economic benefits, especially with regard to our Government's commitment to meaningful black ownership participation and other priority areas of economic transformation including socio-economic transformation at different levels of the projects ie. Project ownership, during the construction phase as well as during the operations phase. This will ensure skills transfer and building our own developers and future IPPs who could participate the world over.

4. **The REIPPPP is delivering real economic growth through foreign and local direct investment, creation of direct and indirect jobs, through stimulating a green industry and through providing energy at rapidly decreasing cost to the consumer.** As I indicated on Thursday when announcing the signing of the projects, we as government need to ensure that indigent households are protected as far as possible from the ever increasing cost of living.

5. The 27 new projects represent a total of **R55.9 billion new foreign and local direct investment, providing a strong economic growth impetus at a time in which our country needs it most. It is important for energy to take its rightful place at the centre of the economy in order to ensure growth and stability.**

6. **Consistent with global trends, the REIPPPP has been procuring energy at increasingly cost competitive rates** and the estimated, average portfolio cost for all renewable energy technologies under the REIPPPP has dropped consistently in every bid period. We need to take into account that the South African projects are responsible to find their own land, pay substantial amounts to connect to the grid as well as having community ownership and paying a certain percentage of IPP revenue for socio-economic upliftment of communities and enterprise development in the areas around these projects. South Africa has decided to follow this model to ensure not only the buying of electricity but also the development of our country and its peoples to ensure a future for all who live in the country. Indications are that prices will continue to decrease in future rounds as demonstrated by the recent Solar PV and Wind prices of the Expedited Bid Window, which were at R0.56/kWh (in 2014 terms).

7. **Renewable Energy IPPs have consistently exceeded mandatory commitments to direct job creation** for South African citizens and specifically black people. **Through the 27 new projects, 61 000 full-time jobs will be created of which 58 400 will be for South African citizens, and mostly for**

the youth. Most of these jobs are created during the construction period of the projects and mostly entails the utilisation of labour in the vicinity of the projects.

8. Furthermore, jobs are created across the entire value chain of the renewable energy sector with an additional 1 500 jobs just in the manufacturing sector. This will give certainty to the industrial development and manufacturing sector enhanced by a clear line of sight of the MWs to be procured per annum as soon as we have the Integrated Resource Plan promulgated.

9. **The localisation potential of these 27 new projects is huge and covers the entire renewable energy value chain** from project design, manufacturing, plant construction, grid connection, component testing and operations and maintenance. Capital expenditure excluding financing cost during the construction period of the 27 new projects would amount to an estimated R44.85 billion of which about R22.24 billion ie. will be spent on local goods and services. **The capital expenditure by the IPPs is equivalent to almost a quarter of the capital expenditure on new construction works by all levels of government and state owned enterprises in 2016, which was reported by Statistics South Africa as being R194.9 billion.** Furthermore, the IPPs have committed to an average of about 40% or R8.90 billion of the local goods and services to be procured from black-owned enterprises during the construction period.

10. Our estimate is that for the solar PV projects, around 2.8 million solar PV modules would be procured, 600 inverters and 385 transformers. In addition for the onshore wind projects, roughly 500 wind towers and turbines would be

required. **South African manufacturers stand to benefit from this huge demand opportunity, given the local content commitments made by the IPPs.**

11. In addition, opportunities for local goods and services suppliers also lie in the areas such as site preparation, steel and cement production for construction and for installation, electrical fittings, cabling and other works for on-site and grid connections, design and construction engineering services, and testing. The 500 wind turbines have blades which will be transported to the different wind farms and black transport companies who have waited for such a long time for this opportunity will suddenly be very busy.

12. **An important focus of the IPPPP is to ensure that the build programme secures sustainable value for the country and enables local communities to benefit directly from the investments attracted into the area.** The REIPPPP is embracing local community socio-economic and enterprise development and through an inclusive geographic approach it has created opportunities across the country – **in all 9 provinces** – in mostly rural areas.

REFER TO MAPS (to be visible on the screens)

13. **Local community shareholding** (total equity) in the 27 projects amounts to 4.41% (or R1 014 million). As part of their bid obligations, the Bid Window 3.5 and 4 projects have made commitments in five categories, namely education and skills development, social welfare, healthcare, general administration and enterprise development. These projects will contribute a total **R9.8 billion to socio-economic development initiatives and R3.39 billion to enterprise**

development over the 20 year life time of the projects, and the majority of this will be spent in local communities and involve women-owned small businesses and the youth.

14. Ladies and Gentlemen, South Africa's IPPP Programme is yet the only vehicle that progressively enables participation by black investors and industrialists in energy generation. The REIPPPP established the first vehicle in the private electricity supply industry that enabled, as mandatory, South African Entity Participation of at least 40%, black enterprise and broad-based black participation in the form of ownership at all levels as well as distribution of economic and socio-economic benefits.

15. It was also the first programme that introduced forward looking price and economic development commitments in these elements to ensure that the benefits to South Africa is maintained across the term of the contract ie. Construction plus 20 years and not only at the time of bidding.

16. In the Bid Window 3.5 and 4 projects, South Africans own the majority share of 57.8% (R11.90 billion) in the project companies.

17. Of the 57.8% South African Shareholding an average of 64.2% (R7.64 billion) is held by black shareholders except for the concentrated solar project, which is very capital intensive, where black shareholders will own 42.9% (R0.58 billion).

18. Shareholding by black South Africans has also been secured across the value chain. Engineering, Procurement and Construction (EPC) and Operating and

Maintenance (O&M) contractors have also agreed to make these commitments in respect of shareholding by black people as well as participating in the action.

19.86% or 1 748 of the top management jobs of the Project Companies will be filled by black professionals.

20. **The REIPPPP is an effective climate change mitigant and water-smart.** The 27 new projects are expected to offset 8.1 million tonne CO₂ per annum. Carbon emission reduction is calculated based on a displacement of power, from largely coal-based to more environmentally friendly electrical energy generation, using a gross Eskom equivalent emissions factor of 1.015 tons CO₂/MWh.

21. The devastating impact of drought and floods over the last few months have highlighted the need for us to think radically differently about our impact on the environment, the climate and our water resources. Virtually all water in South Africa is allocated and any future demand for water in the energy sector will require new water infrastructure. Given the variability of water supply across South Africa and the associated costs of water supply infrastructure, the choice of energy technologies and plant location have a significant impact on the efficiency and sustainability of water use.

22. Energy generation using renewable energy photovoltaic and wind technologies is 'water smart' and uses less than 1 litre per MWh in relation to 1 534 – 3 326 litre MWh for coal fired power stations. **Water savings of the 27 new projects, once fully operational at maximum capacity will save 9.6 million kilolitres a year. This is equivalent to the water needs of more than 1.2 million people for one year.**

23. At a time that we are particularly concerned about the level of our public debt and contingent liabilities, **I can confirm ladies and gentlemen that the 27 new REIPPPP projects will have no impact on government's contingent liabilities before 2020/2021 when most of these projects are expected to start commercial operations.** This is different from public spending due to the construction spend funded by the private sector.

24. Ladies and Gentlemen, the signing of the 27 projects is not the end of this journey. Many of the IPPs have made commitments in broadening ownership and participation through various points over the lifetime of the PPAs. For this to happen successfully, much work has to take place, particularly with regard to finding innovative financing mechanisms and affordable financing terms and conditions, for the participation of black entrepreneurs. We also need to address critical skills and enterprise development in this sector. Our development financing institutions will have a key role in this endeavour, and I would like the Department and IPP Office to very soon arrange an engagement to discuss these issues.

25. It is the Government's position that **South Africa cannot address inequality, poverty and unemployment without economic empowerment of historically disadvantaged people as well as our communities namely blacks, women, youth and people with disabilities.**

26. It is important for us decision makers as well as business and civil society who are more privileged to ensure that our programmes enhance economic

transformation and achieve the objectives and goals of our National Development Plan. Here in particular, I would like to propose the development of an energy sector-wide transformation Charter, which will drive transformation across the energy sector.

27. We need to start thinking innovatively about how we can accelerate the participation of youth and women in renewable energy and the IPP programmes. The clean energy sector provides attractive opportunities for meaningful employment and career development for South Africa's youth and also immense opportunity for the empowerment of women. Despite the strides that have been made by the programme so far, more effort is needed to unlock the full potential for inclusive development. Transformation will require specific programmes focused on actively addressing the value chain within renewable power. Opportunities include:

- a. introducing appropriate programmes to develop entrepreneurs at school level specifically also focussing on our young girls.
- b. launching programmes that seeks to promote the professional and personal development of youth who are interested in pursuing careers in the energy sector. We should also encourage successful business people to go back to their communities and encourage youngsters to strive for success.
- c. initiating programmes that place special emphasis on creating jobs and training for unemployed women and youth

28. It is evident that critical advances – the right representation of women in decision-making positions; their participation in project and programme development, implementation and execution; as suppliers, or as private actors participating in energy decision making – are required if the energy sector is to meet the needs of women and address our country and community's challenges. Where women are things do happen!
29. Inspiring young people, it may just be the catalyst that can transform South Africa and its fast-emerging green economy, not to mention the contribution to the economy at large.
30. Initiatives by various parts of Government, including those of education, energy, and trade and industry, are being designed to support this natural progression. Yet, it is not solely a responsibility of Government – it is the collective responsibility of all stakeholders in the South African society. The shared future of all South Africans depends on how well the entire country can meet the needs and aspirations of its people.
31. We have shown how successful a partnership between government, business civil society and labour can be and that it is one of the strongest drivers of an economy if we all take our rightful roles and build our relationship on mutual trust.
32. Now is the time for us to continue showing the strength of our public-private partnership on 27 March 2018 to present objective facts and arguments towards

an inclusive consideration of the benefits and well-being of the electricity consumer and the all citizens of our beloved country.

33.I thank you all, Ladies and Gentlemen, for your confidence and belief in the IPPPP, specifically in REIPPPP, and all that it has achieved in South Africa. I look forward to our joint journey in the transformation of the energy sector and to take even further strides in promoting much needed investment, jobs and real economic transformation in our current economic climate.

THE END

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