

REIPPP revived

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After a delay of more than two years, all 27 of the projects procured under the fourth round of South Africa's renewable energy IPP programme (REIPPP) have now reached financial close.

Or at least it appears they have. The Department of Energy set a deadline of 31 July (2018) for all projects to close, and reports have so far been mixed. Some in the market say all successfully closed before the deadline, others say a couple may have fallen short. Certainly not all of the projects have been publicly declared as closed yet by their developers, though the vast majority have.

Either way, the drip feed of financing announcements over recent months have been positive news for a market which had not seen a renewables project reach financial close in over two years.

Market participants now wait to see the details of the RFP for round five, as a sense of momentum returns to country's renewables sector.

Deceleration

South Africa started ambitiously, awarding contracts to 28 projects in the first round of REIPPP in 2011, [all of which reached financial close](#) on the same day just under a year later. Two subsequent rounds of projects reached financial close in May 2013, and then December 2014, before the programme started to run into treacle.

Up to and including round four of REIPPP, the government has successfully procured 79 projects with a combined generating capacity of 5,243MW. This added capacity has been an important achievement for a country which has struggled with power shortages in recent years.

But developers have struggled to bring the last of these projects – [awarded in 2015](#) – to financial close, while new rounds of development have been postponed or cancelled.

State utility Eskom started to delay grid connection to awarded projects, and [publicly objected to the awarded tariff prices](#) for solar and wind. There also seemed to be a lack of urgency on the part of government to push the programme forward in recent years.

The resignation of former President Jacob Zuma, and the elevation of Cyril Ramaphosa to the head of government in February (2018) coincided with the programme gaining some much needed impetus.

Gaining momentum

REIPPP was properly jump-started in April this year (2018) when the PPAs for all round four projects were belatedly signed by Eskom.

Some of the projects were able to reach financial close almost immediately, with EDF's Wesley-Ciskei wind farm understood to be the first to complete. All of the projects had until the end of July to sign on their financings.

The full list of round four projects is as follows:

Name	Technology	Generating capacity	Lead sponsor	Location
Oyster Bay	Wind farm	142MW	Enel Green Power	Eastern Cape
Nxuba	Wind farm	141MW	Enel Green Power	Eastern Cape
Karusa	Wind farm	142MW	Enel Green Power	Northern Cape
Roggeveld	Wind farm	140MW	Building Energy	Northern Cape
Golden Valley	Wind farm	117MW	BioTherm Energy	Eastern Cape
Perdekraal East	Wind farm	108MW	Mainstream Renewable Power	Western Cape
Soetwater	Wind farm	139MW	Enel Green Power	Northern Cape
Excelsior	Wind farm	32MW	BioTherm Energy	Western Cape
Kangnas	Wind farm	137MW	Mainstream Renewable Power	Northern Cape
Copperton	Wind farm	102MW	Elawan Energy	Northern Cape
Garob	Wind farm	136MW	Enel Green Power	Northern Cape
Wesley-Ciskei	Wind farm	33MW	EDF Energies Nouvelles	Eastern Cape
Droogfontein 2	Solar PV	75MW	Old Mutual (originated by SunEdison before its bankruptcy)	Northern Cape
Sirius	Solar PV	75MW	Scatec Solar and Norfund	Northern Cape
Dyason's Klip 1	Solar PV	75MW	Scatec Solar and Norfund	Northern Cape
Dyason's Klip 2	Solar PV	75MW	Scatec Solar and Norfund	Northern Cape
Konkoonsies 2	Solar PV	75MW	BioTherm Energy	Northern Cape
Aggeneys solar	Solar PV	75MW	BioTherm Energy	Northern Cape
Loeriesfontein Orange	Solar PV	75MW	Solar Capital	Northern Cape
Greefspan 2	Solar PV	55MW	AE-AMD (owned by AIIM's IDEAS Fund and Katiso Renewable Energy)	Northern Cape
De Wildt	Solar PV	50MW	Old Mutual (originated by SunEdison before its bankruptcy)	North West
Bokamoso	Solar PV	70MW	Old Mutual (originated by SunEdison before its bankruptcy)	North West
Zeerust	Solar PV	75MW	Old Mutual (originated by SunEdison before its bankruptcy)	North West
Waterloo	Solar PV	75MW	Old Mutual (originated by SunEdison before its bankruptcy)	North West
Kruisvallei	Hydro	5MW	Building Energy	Western Cape
Ngodwana Energy	Biomass	25MW	Sappi	Mpumalanga

All of the projects were debt financed by local lenders, with tenors of between 16 to 18 years (plus construction). The main South African banks have supported projects in each round of REIPPP, and Nedbank, Standard Bank and ABSA Bank participated on multiple transactions in round four.

Several of the debt facilities signed for round four were CPI-linked, and this has become more prevalent as the programme as progressed, but aside from this feature the loan packages resembled those seen in previous rounds. Several bankers told *IJGlobal* that there is plenty of appetite and sufficient liquidity for local banks to continue supporting the programme.

Several of the developers in round four – such as Mainstream, Enel, and Scatec – have been successful in previous rounds, and a similar list of bidders is expected for the next round. One banking source said that developers which have

bid but not won mandates in previous rounds have now left the market, but additional equity sponsors are considering bids next time around.

Another market source said round five will be characterised by fewer potential project sites and more bidders, leading to a very competitive process. Many new entrants to the market eyed opportunities in a so-called [expedited round](#) which was launched in June 2015 but subsequently cancelled, and these investor may be willing to submit very low bids in order to now finally break into the market.

IRP and the next RFP

An RFP for round five will not be published until the government has unveiled the latest version of its Integrated Resource Plan (IRP). Due to be published this month (August 2018), estimates on its actual arrival range from next Wednesday (15 August 2018) to the end of this year.

South African Energy Minister Jeff Radebe said in June that the [RFP will be out in November](#), though much will depend on when the IRP is published and exactly what is in it.

The IRP will outline future plans for the country's power mix, with renewables and gas-fired power expected to be prioritised. Coal-fired projects could still be included in the plan, though local bankers say that it will be tough to close what is already in the market, let alone any new capacity. However, the coal mining sector remains a large employer in the country, which is likely to influence the government's plans.

Though local banks have sufficient liquidity to support upcoming REIPPP projects, new gas-fired developments are likely to challenge their lending capacities, presenting an opportunity for international lenders. Foreign banks will have to overcome the ever-present challenge of lending in a volatile local currency, though earlier round of REIPPP have featured international DFIs.

Nuclear power may also be included in the IRP, though it is not expected to be given the prominence it had under the previous administration.

The government has suggested that the RFP for round five of REIPPP will include mechanisms to ensure local communities and businesses benefit more from the programme. This would be generally supported by market participants but the details of any new requirements remain unknown and there is some scepticism as to whether they will be enforceable.

If the government is serious about trying to create a local manufacturing base, the best thing it could do is provide certainty on how much renewables capacity will be procured over the coming years.

Round five is expected to be highly competitive, and a compression of tariff prices almost inevitable. Prices have come down in each round, with bids for wind projects averaging around R0.75 (\$0.056) per kWh and PV projects R0.91 per kWh for round four. Some say renewables is now roughly cost-competitive with other types of domestic generation, though Eskom has long complained of its hidden costs due to intermittent supply.

The main cause of the reason delay to REIPPP was Eskom refusal, for a time, to sign any of the round four PPAs above R0.62 per kWh.

A long-mooted and surely necessary break-up of Eskom will have to form part of the government's longer-term strategy, though no one is expecting many if any details on this in the latest IRP. How to deal with its colossal debts will be another story for another day.

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