

RMIPPPP – a disappointing outcome

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New infrastructure investment totaling at least R45 billion was anticipated to be made in the South African energy sector over the next eighteen months following the announcement of eleven preferred bidders under the Risk Mitigation IPP Procurement Programme (RMIPPPP) earlier this year. However, there have been multiple reasons for the delay in the projects reaching financial close, including difficulties by some to obtain environmental approvals, securing sufficient local manufacturing capacity for the equipment used to construct the projects, and a legal challenge by a losing bidder that is disputing the preferred bids awarded to three Karpowership projects.

The RMIPPPP is the first step in the government’s plan to procure a net increase of more than 23 900 megawatts (MW) of energy over the next eight years (until 2030). This is set out in the latest Integrated Resource Plan (IRP 2019) and assumes the scheduled decommissioning of 8 000 MW of generation capacity from Eskom’s coal fleet over this period. The objective of RMIPPPP is to procure up to 2 000 MW to help bridge South Africa’s existing electricity supply gap, which Eskom has publicly stated is at least 4 000 MW at the current levels of economic activity and available generation capacity.

Despite the intended urgency of the RMIPPPP (following the updated IRP 2019 that was released almost two years ago), its implementation has been disappointing, particularly with the ongoing delays to start construction of the projects and the aspersions cast on the bid adjudication process. The high court in Pretoria has granted a postponement to early December 2021 for the hearing of the application to set aside the award of the energy contracts to Turkish-owned company Karpowership SA. This has undoubtedly weighed negatively on the other preferred bidder projects reaching financial close and has thrown the entire programme into doubt.

Early on, Futuregrowth noted concerns about the Karpowership projects. Their gas-burning technology and associated high level of carbon emissions detract from South Africa’s clean energy goals. Almost two thirds of the energy allocated under the RMIPPPP was awarded to these offshore projects and does not support the gross fixed-capital formation that our country desperately needs. The projects were also granted exemptions from local content provisions during their development phase, a key metric that bidders were required to comply with under the RMIPPPP. Shortly after the Karpowerships were announced as preferred bidders, Futuregrowth decided not to invest in them.

Karpowerships

The preferred bids included three floating power stations, or “Powerships” that are planned to be moored at Nelson Mandela Bay, Richards Bay and Saldana Bay respectively, and will in total generate up to 1 220 MW of electricity by burning Liquefied Natural Gas (LNG).

In total, eleven projects with a combined generating capacity of 1 995 MW were selected out of twenty-eight projects that bid a potential contracted capacity of 5 117 MW. The preferred bidders were originally set to reach financial close by 31 July 2021, but this was then extended to 30 September 2021, and now it is probable that most will not achieve this date either.

Preferred bidders announced so far:

Project	Location	Energy type	Megawatt
1. ACWA Power Project DAO	Groblershoop, Northern Cape	Combination of solar photovoltaic (PV), onshore wind, battery storage and diesel	150 MW
2. Karpowership SA Coega	Nelson Mandela Bay, Eastern Cape	Liquid natural gas	450 MW

3. Karpowership SA Richards Bay	Richards Bay, KZN	Liquid natural gas	450 MW
4. Karpowership SA Saldanha	Saldanha Bay, Western Cape	Liquid natural gas	320 MW
5. Mulilo Total Coega	Nelson Mandela Bay, Eastern Cape	Combination of solar PV and liquid natural gas	198 MW
6. Mulilo Total Hydra Storage	De Aar, Northern Cape	Combination of solar PV battery storage and diesel	75 MW
7. Oya Energy Hybrid Facility	Matjiesfontein, Western Cape	Combination of solar PV, wind and lithium-ion battery storage	128 MW
8. Umoyilanga Energy	Nelson Mandela Bay/Upington, Eastern & Northern Cape	Combination of solar PV, onshore wind, battery storage and diesel	75 MW
9. Scatec Kenhardt 1	Kenhardt, Northern Cape	Combination of solar PV and battery	50 MW
10. Scatec Kenhardt 2	Kenhardt, Northern Cape	Combination of solar PV and battery	50 MW
11. Scatec Kenhardt 3	Kenhardt, Northern Cape	Combination of solar PV and battery	50 MW

The projects under the RMIPPPP are required to meet the following criteria:

1. Construction is to be completed within 12 to 18 months of their financial close;
2. Base load energy must be dispatched to the grid between the hours of 5am and 9.30pm; and
3. At least 51% of the shareholding must be local, with at least 41% held by Black South Africans.

Electricity generated by these projects will earn tariffs ranging from R1 468/MWh to R1 885/MWh (adjusted for inflation, fuel and the ZAR price of imported gas and diesel over the next twenty years) subject to the projected fuel price assumptions bid by the projects. This is more than double the preferred bid tariffs of approximately R700/MWh under the latest Round 4 of the Renewable Energy IPP Procurement Programme (REIPPPP) and is due to the higher cost of the dispatchable energy required by the RMIPPPP, which will rely on technology utilising gas, battery storage and/or diesel in the projects. The preferred bids will benefit from the same government guarantee support regime as bid windows 1 to 4 of the REIPPPP, which has written concurrence by National Treasury.

The projects are planned to create employment for local citizens during their construction and the 20 years of contracted operations. Furthermore, the government has envisaged that there may be opportunity to capitalise on the new skills and supply lines to be established by the gas technology in some of the projects and used to develop the potential growth of the gas industry in South Africa. This could involve the repurposing of old Eskom coal-fired power stations to operate on gas, in the areas where there are plans to decommission these plants.

RMIPPPP set to be overtaken by REIPPPP Bid Window 5

The Department of Mineral Resources and Energy has recently confirmed that it received more than 100 project bids for the 1 600 MW of wind and 1 000 MW of solar photovoltaic (PV) energy that is planned to be allocated under REIPPPP Bid Window 5. Financial close of the preferred bids could happen in early 2022 and overtake the delayed projects under the RMIPPPP that predominantly comprises the Karpowerships.

The cheaper and cleaner renewable energy under REIPPPP Bid Window 5 will help South Africa achieve its clean energy goals and the planned procurement of battery storage technology under a future bid window, should assist to resolve the base load challenges arising from the intermittency of renewables.

Given the procurement of new energy under further bid windows in the near future, including the expected launch of REIPPPP Bid Window 6 in early 2022, an exciting phase in the growth of South Africa's energy sector is unfolding and introduces new investment opportunities for our clients.

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