SOUTH AFRICA NEEDS TO ADOPT A "PEOPLE FIRST" PPP MODEL IN THE RENEWABLE ENERGY SECTOR

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Public-Private Partnerships

- PPPs improves the efficiency and quality of public goods and public services, realizes the ideal of "People First" and promotes sustainable development.
- This model is promoted by international cooperation mechanism (G20, APEC) and main multilateral institutions (World Bank Group, ADB, IADB, AFDB and UN, etc.).
- South Africa has been successful in promoting the PPP model by setting up regulatory and institutional frameworks, developing demonstration projects, providing financial support, etc. to enhance their PPP enabling environment.
- Although PPPs are an innovative financing mechanism to close the SDG investment financing gap in infrastructure and public services, increasing the involvement of private investors in SDG-related infrastructure and public services and finding innovative financing solutions has become an ever more important policy imperative.
- Private investors' involvement in public sectors also raises a number of policy dilemmas. In fact, PPPs not only present opportunities, but also risks for South Africa communities using them in the pursuit of the SDGs.

"People First" PPPs

- In response to this challenge, development partners, including UN agencies, have developed numerous Guidelines and Toolkits which can be considered for purposes of benchmarking to ensure a "People-First" approach to PPPs.
- People-first PPPs ensure that out of all stakeholders, 'people' are on the top.
- Its focus is on improving the quality of life of the communities, particularly those that are fighting poverty, by creating local and sustainable jobs, and promote well-being, promote gender equality, access to water, energy, transport, and education for all, and that promote social cohesion, justice and disavow all forms of discrimination based on race, ethnicity, creed and culture.

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The importance of Renewable Energy (RE) to Sustainable Development

- The United Nation's commentary on the progress of Sustainable Development Goal 7 in 2016 states:

  "Energy is crucial for achieving almost all of the Sustainable Development Goals, from its role in the eradication of poverty through advancements in health, education, water supply and industrialization, to combating climate change"

- The United Nation's commentary on the progress of Sustainable Development Goal 13:

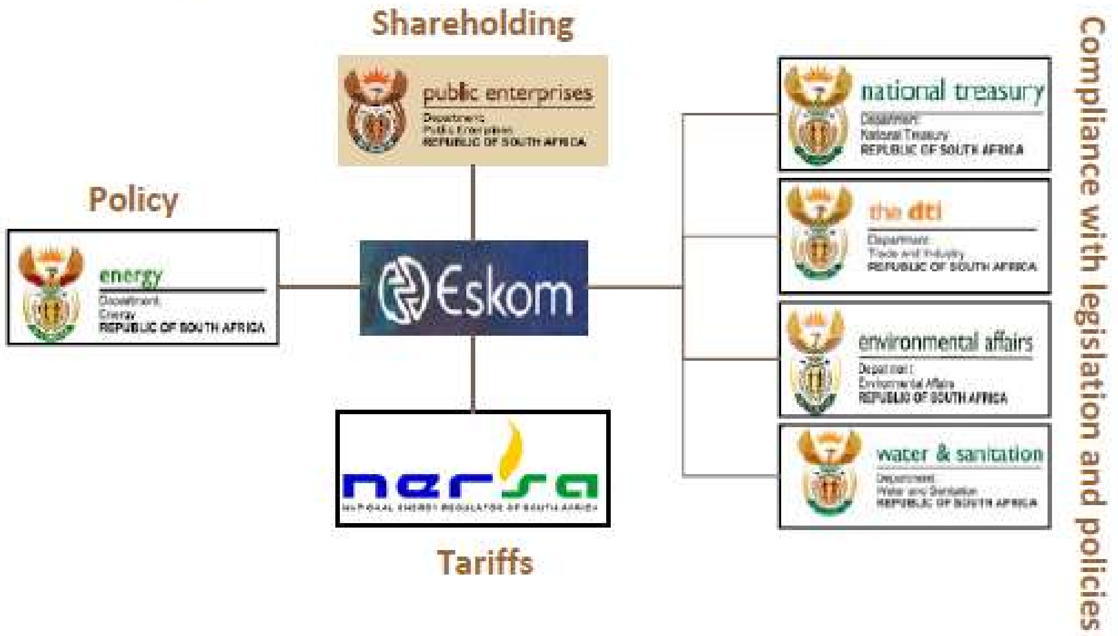
  "Climate change presents the single biggest threat to development, and its widespread, unprecedented impacts disproportionately burden the poorest and most vulnerable"

- Accordingly, access to sufficient, dependable and affordable RE is crucial to attaining the United Nations' Sustainable Development Goals ("**UN SDGs**")

Energy Policy and Legislative Framework

- White Paper on Energy Policy, 1998
- The National Development Plan
- The Integrated Energy Plan
- The Integrated Resource Plan
- Electricity Pricing Policy
- The Paris Agreement (2016) on Climate Change
- Section 24 of the Bill of Rights
- The National Energy Act 34 of 2008
- The Electricity Regulations Act 4 of 2006
- The Petroleum Products Act 120 of 1977
- The Petroleum Pipelines Act 60 of 2003
- The Central Energy Fund Act 38 of 1977
- The Nuclear Energy Act 46 of 1999
- The Gas Act 48 of 2001
- The National Environment Management Act 107 of 1999
- The Mineral and Petroleum Resources Development Act 28 of 2002

Figure 1: Legislative landscape of the South African Electricity Supply Industry



The National Development Plan

- The National Development Plan (NDP) sets out South Africa's need to invest in a strong network of economic infrastructure to support the country's medium and long-term economic and social objectives.
- The National Development Plan envisages that by 2030, South Africa's energy sector will be reliable, efficient and competitive, will be socially equitable through expanded access at affordable tariffs, and will be environmentally sustainable.
- 20-year planning horizon to roll out electricity infrastructure in line with Ministerial Determinations issued in terms of Section 34 of the Electricity Regulation Act of 2006
- The NDP and Ministerial Determinations are policy signals investors use to plan investments

IRP 2019

- The National Development Plan
- IRP 2010
- Paris Agreement on Climate Change
- Ministerial Determinations – section 34 of the Electricity Regulation Act
- Since promulgation of IRP 2010
    - A total 6 422 MW under the Renewable Energy Independent Power Producers Programme (REIPPP) has been procured, with 3 876 MW operational and made available to the grid
    - IPPs have commissioned 1 005 MW from two Open Cycle Gas Turbine (OCGT) peaking plants
    - Under the Eskom build programme, the following capacity has been commissioned: 1 332 MW of Ingula pumped storage, 1 588 MW of Medupi, 800 MW of Kusile and 100 MW of Sere Wind Farm
    - In total, 18 000MW of new generation capacity has been committed to

IRP 2019

- Objectives:
    - Guide the development of energy policy and set regulation for the sector
    - Guide the selection of appropriate technologies to meet demand
    - Guide investment in the development of energy infrastructure
- Implementation Issues:
    - The development of a just transition framework including the socio-economic impact analysis of the decommissioning of old coal fired power plants that would have reached their end of design life
    - The changing structure of the industry, including the role of Eskom and local government in electricity generation
    - The level of participation by local companies and the previously marginalised South Africans in the energy sector

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IRP 2019

Table 1: IRP 2019

Recommended Plan IRP 2019	Coal		Nuclear	Hydro	Storage	PV		Wind	CSP	Gas & Diesel	Other*
Current Base	37149		1860	2100	2912		1474	1980	300	3830	499
2019	2155	-2373						244	300		
2020	1433	-557					114	300			***
2021	1433	-1403					300	818			
2022	711	-844			513	400	1000	1600			
2023	750	-555					1000	1600			500
2024			1860					1600		1000	500
2025							1000	1600			500
2026		-1219						1600			500
2027	750	-847						1600		2000	500
2028		-475					1000	1600			500
2029		-1694			1575		1000	1600			500
2030		-1050		2500			1000	1600			500
TOTAL INSTALLED CAPACITY by 2030 (MW)		33364	1860	4600	5000		8288	17742	600	6380	
% Total Installed Capacity (% of MW)		43	2.36	5.84	6.35		10.52	22.53	0.76	8.1	
% Annual Energy Contribution (% of MWh)		58.8	4.5	8.4	1.2		6.3	17.8	0.6	1.3	

Grey	Installed Capacity
Yellow	Committed/ Already Contracted Capacity
Red	Capacity Decommissioned
Green	New Additional Capacity
Blue	Extension of Koeberg Plant life
Peach	Distributed Generation Capacity for own use

* Distributed Generation, CoGen, Biomass, Landfill

** Allocation to the extent of the short term capacity and energy gap

Source: DMRE

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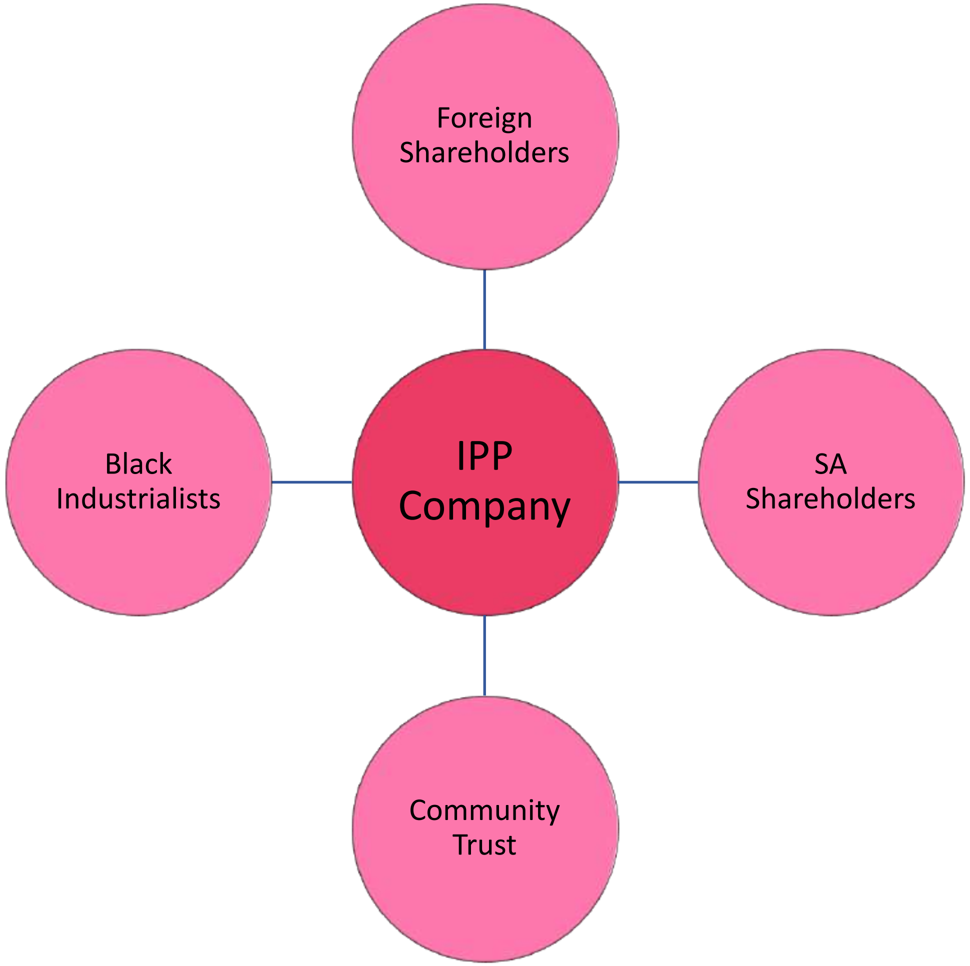
Independent Power Producer (IPP) Partnerships

- A PPP is defined in South African law as "a contract between a government institution and private party, where:
  - i) the private party performs an institutional function and/or uses state property in terms of output specifications;
  - ii) substantial project risk (financial, technical, operational) is transferred to the private party; and
  - iii) the private party benefits through unitary payments from government budgets and/or user fees" (National Treasury PPP Unit, 2007)
- The PPP rationale in South Africa is based on three principles, namely value for money, affordability, and appropriate risk transfer to the party (public or private) that is most suited to carry certain risks
- IPPs:
  - A Company (Consortium) established by a range of shareholders for the purposes of bidding for, constructing and operating an independent power plant.

Independent Power Producer (IPP) Partnerships

- In 2009, South Africa began exploring FITs for RE but they were rejected in 2011 in favour of following a competitive tender process. This resulted in a policy programme now known as the REIPPPP



IPPs role in providing new energy capacity

- Funding
- 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 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
- 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

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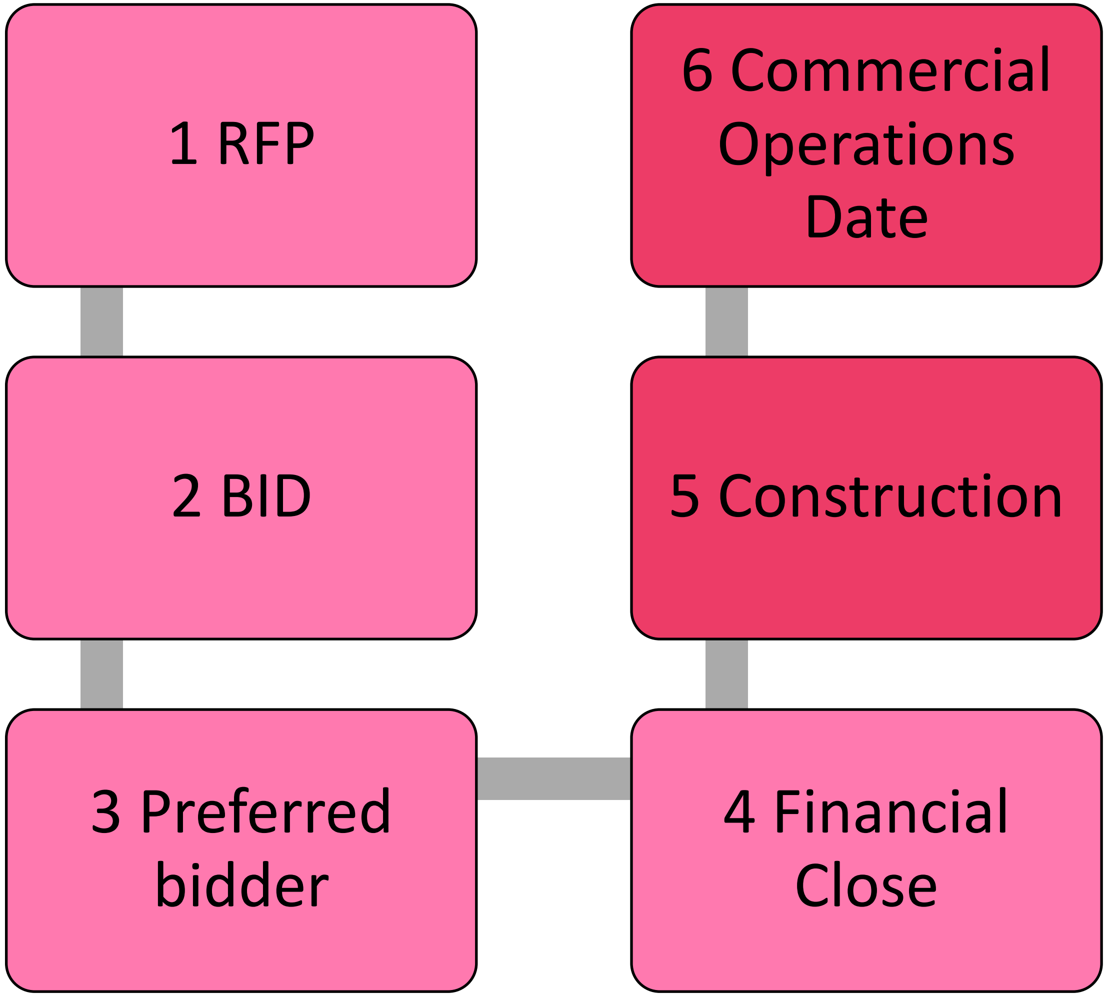
Outlining Renewable Energy Independent Power Producer Procure Programme (**REIPPPP**)

- A programme designed to respond to the call by the NDP and IRP 2010/19
- Aim:
  - Secure electrical energy from private sector via renewable energy sources to add to the national grid
  - Job creation
  - Empowerment
  - Broadening economic ownership

Procurement Process

- Multi-stage bidding process
- Contractual Phase [1 to 4]
- Implementation Phase [5 to 6]
- Preferred Bidder Selection:
  - Economic Development – 30%
  - Price of power per kWh – 70%

- RFP
  - Part A – General Requirements
    - Requirements and Rules
  - Part B – Qualification Criteria
    - Environmental
    - Land
    - ED
    - Finance
    - Technical
    - Price
    - Capacity
  - Part C – Comparative Evaluation
- PPA
  - Contract between IPP and Eskom
- IA
  - Contract between IPP and DoE
  - ED Obligations



Comparative Evaluation

- Secured land rights
- Permits
- Project structure finalized and financed
- Technical capabilities
- ED requirements
- Electricity tariff
- Bid guarantee

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.

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RE PPPs

- Compared to traditional public procurement where a public entity finances and contracts for a specific good or service and retains much of the risk of public service delivery, a distinguishing feature of a RE PPP is the allocation of a significant portion of that risk to the private sector.

TECHNOLOGY
where the service requires external expertise and government will not be able to provide it independently

QUALITY
where the private sector would significantly enhance the quality of service compared to what the government could extend independently

TIME
where the private sector would expedite the project implementation significantly

COST
where there would be a considerable reduction in the project cost and also the service cost with the involvement of the private sector

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‘People First PPPs’

- People first PPPs is a model that fosters access to essential public services for all where sustainable development as its objective and **putting people first** at the core.
- This is in contrast with PPPs model that have been mainly financed public infrastructure or to sought operational efficiency gains and realized only ‘value for money’ for a particular project.
- While these aspects remain important, with the adoption of the 2030 Agenda, the challenge for governments and the private sector now is to implement PPPs according to a broader set of **holistic criteria** and undertake projects that from inception to termination create **‘value for people’**
- In essence this means PPPs need to do more and be measured according to a number of impacts that are in line with the SDGs, such as a pipelines of projects increasing **access to essential services** adapted to the needs during the project lifecycle, especially to vulnerable groups, having particularly strong **economic effectiveness** and **transformational impact**, being **replicable**, cutting or significantly **reducing Co2 emissions**, making infrastructure more **resilient**, and/or engaging effectively with **all stakeholders**.

‘People First PPPs’

- United Nations Economic Commission for Europe Working Party on Public-Private Partnerships – UNECE Standard on PPPs in Renewable Energy:

  “(a) are seen as synonymous with the purposes of the UN SDGs; (b) out of all the stakeholders, put people as the main beneficiaries of the projects; (c) increase access to water, energy, transport, and education especially to the socially and economically vulnerable members of society; (d) promote social cohesion, justice and disavow all forms of discrimination based on race, ethnicity, creed and culture; (e) focus on improving the quality of life of communities, fighting poverty and creating local and sustainable jobs; and (f) contribute to ending hunger and promote the empowerment of women.”

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‘People First PPPs’

- In essence government will be required to prioritize:
  - A sufficient amount of RE generation capacity to meet electricity demand
  - RE generation assets need to be prudently operated and maintained over the useful life of those assets
  - Consumers are charged the lowest possible tariff
- Another important component of RE projects that are SDG compliant and put people first is environmental and social sensitivity.
- Government must therefore:
  - implement policies to guide the partnership with respect to environmental and social impacts
  - establish a process to identify and assess those impacts
  - develop a management programme, including mitigation measures, which address the impacts throughout the life of the project
  - employ communication and disclosure practices that identify and communicate with stakeholders who are affected by the project, and
  - institute a grievance mechanism system to resolve outstanding stakeholder issues, in particular for projects which involve resettlement

Making PPPs fit for purpose

- People-first Public-Private Partnerships must be evaluated according to a new set of criteria which can be perceived and actually are "quality investments". Such criteria are tentatively defined as: "accessibility"; "equity"; "efficiency"; "effectiveness", "sustainability" and "replicability":
  - **Increase access** of essential services to people especially the socially and economically vulnerable. Engagement with social policy issues has remained on the periphery, rather than an integral part of, infrastructure reform in many countries. The design of PPPs has been weak in addressing poverty concerns, and there has been an absence of consideration of the impact of such investments on different groups of men and women
  - Promote **equity**, leaving no one behind, promote social justice and make essential services accessible and without restriction on any grounds
  - Increase **efficiency** - doing more with less. Improving the productivity of existing assets and making savings, for example, that can be used by governments for projects that eradicate poverty
  - Are **sustainable** - cuts Co2 emissions and fosters green growth
  - Be **replicable** so that they can be scaled up and achieve the transformational impact required by the 2030 Agenda

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Designing a winning RE Procurement Programme

- Establish a clear policy and enabling environment
  - A roadmap for RE investment
  - Energy Policy White Paper
  - IRP 2019
  - Eskom Road Map
  - RE Procurement Programme
- Mandate and co-ordinate leadership
  - Political commitment
  - RIEPPPP Procurement Process
  - Credible programme leadership
  - Co-ordinating government departments
- Adequate resources to hire transaction advisors
- International Best Practice
  - Benchmarking
  - Procurement model
  - Two-stage bid process
  - Multiple bid rounds
- High quality bankable contracts

Designing a winning “People First” PPP

- Meet the ‘People First’ PPP conditions:
  - Increase **access** of essential services to people, especially to the socially and economically vulnerable; furthermore, people-first PPPs should promote social justice and make essential services accessible without restriction on any ground
  - Developing a **resilient infrastructure** and improving environmental sustainability, cutting Co2 emissions and fostering green growth
  - Demonstrating **project economic effectiveness**, projects must be successful, achieve value for money and have a measurable impact by removing a barrier or creating new means for integrating groups into the global market place
  - Be **replicable and scalable** so that they can be scaled up and achieve the transformational impact required by the 2030 Agenda
  - Engaging **all the stakeholders** that are either directly involved in the PPP project or directly or indirectly affected in the short and /or long run

A new generation of PPP

- The new generation of "PPPs for SDGs" will need to become far more social in its outcomes and motivations – focusing less on value for money (vfm) and more on jobs, vulnerable groups and women's empowerment
- The private sector will need to be highly sensitive to doing business in new markets where up until now private investment in infrastructure has been scarce
- The private sector will in entering new markets, have to accept a different risk reward ratio and move away from profit maximisation to a longer term perspective of developing the markets for future returns
- The private sector will have to work more closely with civil society to deliver projects and build local capacity
- The Multilateral Development Banks (MDBs) will also have to play a new role in supporting this new type of PPPs. MDBs are indeed essential for the new generation of PPPs to emerge for the UN SDGs
- Civil Society also should play a critical role in PPPs and all partnerships. Trade unions, environmentalists, academics and other organizations are strongly involved in many partnerships in developing countries and transition economies. The SDG 17 indeed expressly calls for "civil society partnerships" to implement the UN SDGs. Moreover, in low income countries where there is weak governance and the public sector lacks capacity, civil society play already a major role in the delivery of infrastructure projects

Such a transformation envisaged through PPP needs a 'rebranding' of PPP so that in the design of projects, people come first: hence the term 'people first PPPs' arguably is best to convey this new generation of PPP

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Thank you for the opportunity.

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