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Infrastructure Sector Solutions: Head – Power

AREA OF SPECIALTY

The Infrastructure Sector Solutions team at RMB covers a broad range of infrastructure including Public-Private Partnerships (PPPs), midstream oil and gas, concessions, transport and power, which includes both renewable energy and certain thermal power. From a product perspective, we provide senior project finance debt, mezzanine and subordinated funding, equity gearing and acquisition finance. We also take equity positions in pointed opportunities, and provide advisory services as well. I look after the power side of our business.

Q *For the last year or two, many South African companies are looking to source their power from providers other than Eskom. What has precipitated this change?*

A The private power sector is booming. Driven by the need for security of electricity supply, a desire for more certainty in the price of power, and net zero commitments and decarbonisation goals, large corporates and smaller clients alike are looking either to generate their own power or purchase electricity from third parties. This revolution is happening now because of the decline in renewable energy prices, especially relative to rapidly increasing Eskom electricity tariffs, changes to the regulatory environment (e.g. Eskom facilitating wheeling of power across its network and licence requirements being lifted), and the maturation of the SA renewable energy industry with more developers, IPPs and projects. Needless to say, the recent spate of loadshedding, and that it's unlikely to dissipate any time soon, has exacerbated this rapid development in the private power market, also referred to as the commercial and industrial (C&I) sector.

Q *How has the private power market developed? What have been some of the challenges?*

A As a result of the success of the Government's Renewable Energy IPP Procurement Programme (REIPPPP), there are many local and international IPPs active in South Africa, with significant experience in the local environment. In addition, there are a number of smaller IPPs who have traditionally specialised in the C&I market. We are now seeing those two groups of players converging in the C&I space, which in turn creates more competition and better tariffs for buyers.

Energy intensive resource sector clients (e.g. mining and industrial corporates) have taken the lead in this market. While some have elected to own these plants themselves, the majority have elected to procure renewable energy though formal Requests for Proposals (RfPs) seeking arm's length long-term (15 to 20-year) power purchase agreements (PPAs) with one or more independent power producers (IPPs). These deals have typically been financed on a limited recourse (or project finance) basis, where the lenders and shareholders look only to the cash flows emanating from the project itself, for repayment and equity returns alike.

One of the challenges that this burgeoning market faced was credit risk: How can lenders take a long-term (15 – 20 year) credit view on a project that sells only to a particular corporate, when they would only lend to that same counter for 5 – 7 years? The answer lies in a project's ability to find one or more other buyers of that power, should the original offtaker be unable to meet its obligations under the PPA. As part of the liberalisation of the market, Eskom has not only facilitated, but even encouraged, the wheeling of power from the source of generation to the buyer across its transmission network. The resultant credit hypothesis is that should the original buyer under the PPA renege on its obligations, provided that the plant is connected to the Eskom network, there is a universe of alternative potential buyers who could be accessed, particularly given that the power being generated is both renewable, and cheaper than Eskom.

Q *Where to now for the private power market?*

A While the energy-intensive users have led the market, most corporates do not consume that quantity of power. Specifically, those companies that use between 1 and 10MW may need more support in assessing the most viable option/s to generate their own power and/or to purchase from IPPs. If an on-balance sheet structure is not viable, their power requirements are often too small to warrant a full project financing and cannot take advantage of economies of scale. In turn, this presents opportunities for the market to solve, and consequently we are seeing a number of different selling models emerging, including:

- emerging energy traders looking to match short-term buyers and long-term sellers;
- IPPs selling to multiple users from the same plant; and
- buyers joining with other smaller users in the same geographic area to purchase from an IPP-owned plant located elsewhere in the country or in that area.

It's clear how exciting a time it is for the electricity sector in South Africa.

Q *What then for the Government procurement programmes?*

A Government auction programmes, like the REIPPPP, continue to be highly competitive – the tariffs bid in Bid Window 5 of the REIPPPP saw a 67% average decline in electricity prices since its inception some 11 years ago. Bid window 5 of the REIPPPP featured incredibly competitive bidding between banks and sponsors. The fact that the bid was nearly four times oversubscribed points to the pent-up demand in the market. This oversubscription trend continued in the 6th Bid Window (bids were submitted early October).

This bodes well for the private power sector: there are multiple, permitted, shovel-ready projects looking for creditworthy offtakers.

In addition, on the back of the success of the REIPPPP, the Department of Mineral Resources and Energy (through the IPP Office) is looking to roll out both a Battery Storage programme and a Gas-to-Power programme.

Q *Interesting fact(s) about yourself / your achievements*

A My current goal is to run all 6 of the World Marathon Majors, and have completed 4 to-date: New York, Berlin, Boston and most recently, Chicago. I am hoping to run the London Marathon in April 2023, which will leave only Tokyo to complete the set.