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Introduction to the SADC Investors' Round Table Conference
Livingstone, Zambia, 15-17 July 2009

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Utho Capital

Agenda

1. Background
2. Major Issues Affecting Project Closure
3. SAPP Long Term Generation Requirements
4. Methodology & Process in Selecting Projects for the Conference
5. High Level Approach to Project Selection
6. Project Information Reports
7. Harare Preparatory Workshop for Roundtable
8. Projects Status Assessment: How Close to Bankability
9. Desired Outcomes of Roundtable

Background

- Numerous projects (generation & transmission) identified but virtually no implementation of scale on regional projects

	SAPP Generation Projects	Capacity [MW]	Estimated Cost [US$ Million]	Period
1	In Progress & under development	3,211	1,410	2005 - 2007
2	Rehabilitation	1,048	523	2007 - 2010
3	Short-Term (New build)	4,217	3,830	2005 - 2010
4	Long-Term (New build)	43,542	37,585	2011 - 2020
	Total Planned Capacity	52,018	43,348	

Estimate needs to be updated based on current costs

- Completion dates shift annually

SHIFTED CAPACITY				
Plant	Country	Capacity , MW	Planned	New date
Inga 3	DRC	3500	2012	2017
Kafue Lower	Zambia	750	2012	2015
Muela 2	Lesotho	110	2012	2015

Most expected completion dates, as supplied, are unachievable in the absence of a regional initiative to coordinate implementation of both generation projects & interconnectors

- SAPP successfully implemented STEM but no trade now – bilateral trade is still on, but no excess power above bilaterals

Source of Statistics: SAPP Pool Plan – An Overview (Nov 2008)

Major Issues Affecting Cross Border Project Closure

Political commitment

- Endorsement at a Heads of State level
  - Reduce bureaucracy
  - Comfort of Gvt underwriting
- Lack of a Project Champion
  - Strong oversight & accountability
- Low Tariffs
  - Tariff gap
  - Need gvt underwriting

Rolling Priorities

InstitutionalFramework Project preparation, stucturing & implementation capability

- Project Preparation, Structuring/Implementation
  - Currently not at the required standard
  - No understanding of bankability
  - No regional coordinated planning/execution
- Institutional Framework
  - SAPP mandate & structure inappropriate
  - SADC historical focus on politics
  - No institution accountable for delivery
- Regulatory Framework
  - No clarity on cross-border trade
  - No clarity on cost pass through
  - No framework to encourage competition
  - No security of supply
- Weak project sponsors/ developers
  - No capacity to implement
  - Need to be reconstituted
- Transaction advisors role

Dependence On PPAs To Get Projects Finance

- Market in each country too small relative to size of projects
- Offtaker
  - Single buyer model – only utility
  - Credibilty/ creditworthiness
  - Impact on balance sheet
  - Need energy intensive private users
- Dominant Role of Eskom as Major Buyer
  - Ratings downgrade
  - Reduced borrowing capacity
  - Inability to enter into PPAs
- Risk allocation (currency risk, etc)
- Complex negotiations, learning curve
  - Too long to close PPAs
  - Too long to financial close
  - Need standardisation
- Tariff gap

Progress (Years) towards financial close

SAPP Long Term Generation Requirements

- The Pool Plan (alternative case) shows that 56,687 MW of new additional power generation capacity would be required by 2025 with the generation mix of:

✓ Coal fuel 23,883 MW Hydro 18,045 MW

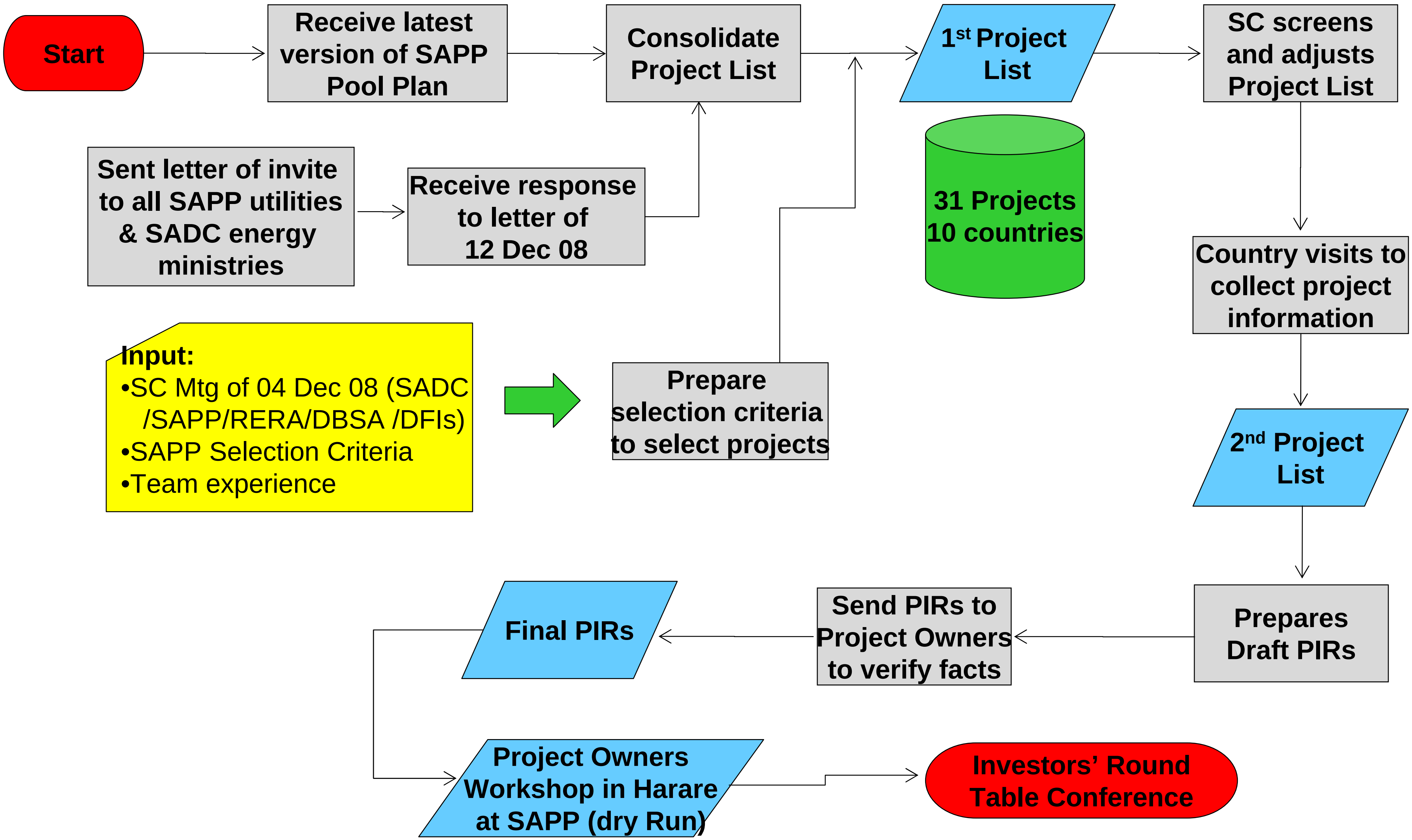
✓ Distillate 12,594 MW Gas 2,165 MW

(excludes nuclear option)

Source of Statistics: SAPP Pool Plan – An Overview (Nov 2008)

- By 2025, a total of 102,871 MW would be required in the SAPP, mostly in RSA
- At a cost of +$100bln, Eskom, as single buyer, can't support these projects
  - No capacity to develop internally (even with gvm support) nor sign PPAs
  - With current model, most regional projects simply can't be developed
- Need a multi pronged approach encompassing:
  - Eskom's built program
  - IPPs in line with gvm policy, including renewables
  - PPAs for regional projects in the short to medium term
  - Need an alternative buyer to make projects feasible in the medium to long term
    - Bearing in mind that, Intensive Energy Users ("IEU") use over 50% of power
    - Consider allowing IEU in SADC access to SAPP grid for new generation projects

Methodology & Process in Selecting Projects & Preparing for the Conference



High Level Approach to Project Selection

- The provisional project list compiled using the SAPP's selection criteria as adapted, taking into account the best available information on:
  - Expected financial close within 2 years
  - Expected project completion date (target before 2016)
  - Size (project to make a meaningful contribution to the regional shortage)
  - Status of the feasibility study and EIA (should have been completed and be ready for review)
  - SAPP priority interconnector projects
  - Is the off-take committed? (are PPAs in place or being negotiated?)
  - Other criteria include least cost, etc

Project Information Reports

- The Project Information Reports (PIRs) compiled from information obtained from the project owners
- PIRs provide a high level view on each of the projects to allow stakeholders to get some preliminary information on projects
- They are **NOT** Project Information Memorandums (PIMs)
- Each project is at a different stage of development/ preparation and they all have different requirements.
- The PIRs are meant to give stakeholders an idea as to the status of each project, and what its particular requirements are.

Harare Preparatory Workshop for Roundtable

- A workshop was held in Harare (18 -19 June 2009) for project owners
  - Primarily to do a dry run of presentations for roundtable with project owners
  - Initial concern & scepticism from project owners

- The level of interaction and debate at the workshop eventually went beyond merely being a dry run session
  - Project owners came to the realisation that while they may be future competitors, they faced common problems
  - Evolved into a forum for project developers to discuss matters of mutual concern & interest

- Can SAPP/SADC/RERA assist the projects move towards implementation

Projects Status Assessment :
How Close to Bankability

Complete & Bankable

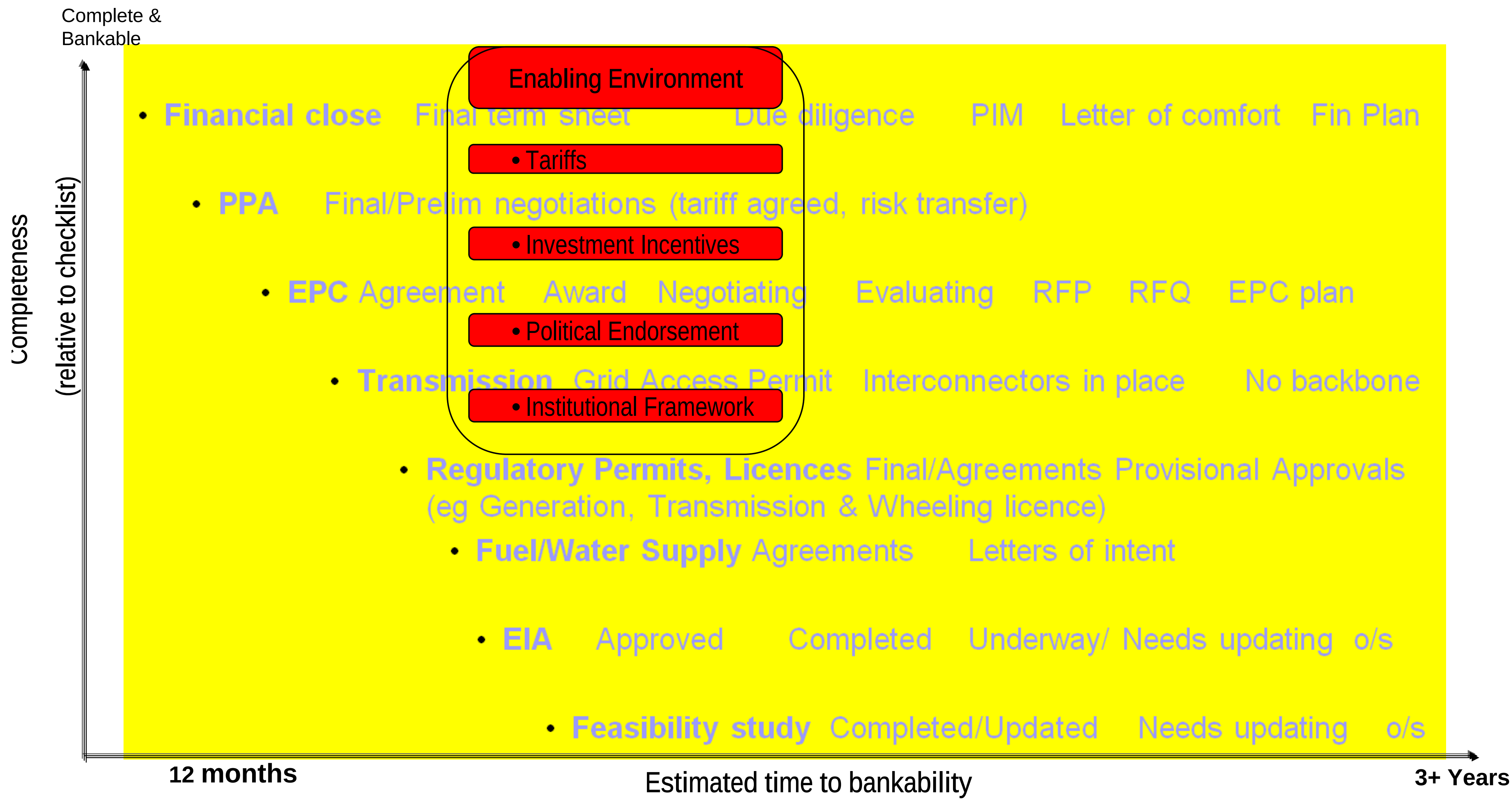
Completeness (relative to checklist)

- **Financial close** Final term sheet Due diligence PIM Letter of comfort Fin Plan
- **PPA** Final/Prelim negotiations (tariff agreed, risk transfer)
- **EPC** Agreement Award Negotiating Evaluating RFP RFQ EPC plan
- **Transmission** Grid Access Permit Interconnectors in place No backbone
- **Regulatory Permits, Licences** Final/Agreements Provisional Approvals (eg Generation, Transmission & Wheeling licence)
- **Fuel/Water Supply** Agreements Letters of intent
- **EIA** Approved Completed Underway/ Needs updating o/s
- **Feasibility study** Completed/Updated Needs updating o/s

12 months Estimated time to bankability **3+ Years**

- Projects will be at different stages to bankability, depending on what elements on the checklist are still outstanding

Projects Status Assessment : How Close to Bankability



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What Should be the Desired Outcome of Roundtable

Pondering on the way forward

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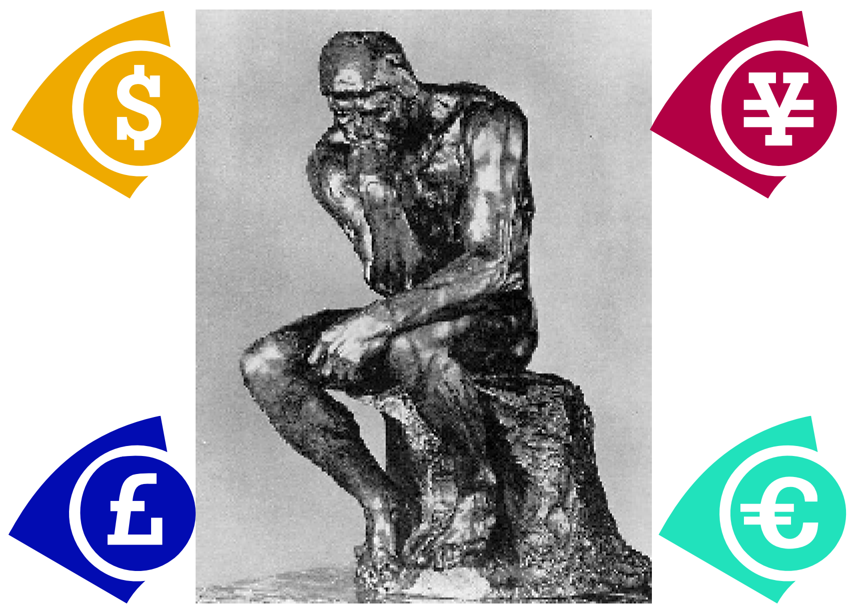

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What Should be the Desired Outcome of Roundtable

Where Can the Money Come From:
(Sources of Funding Infrastructure to SADC)

- According to the World Bank,
  - global financial crisis has reduced investor appetite for emerging markets
  - private capital flows to Africa are drying up which could impact on project financing

- Funding from traditional donors is available, but limited

- RSA banks remain well capitalised, but credit providers more rigorous approval processes

- China playing a proactive role in development of power in Africa/SADC through
  - Chinese banks (State, Policy & Commercial Banks)
  - China Africa Development Fund
  - Chinese EPC companies
- Current projects being implemented include: Mmamabula, Morupule & Kariba North Bank

- So, the bottom line is money is still available even in these tough times

What Should be the Desired Outcome of Roundtable

- The Investors’ Round Table is to generate interest from funders to get projects to close within 2 years
  - But projects need to be bankable & strong political will required at a regional level

- The Round Table provides a forum for an engagement process with relevant stakeholders to clear barriers & get power projects in the region implemented
  - ie investors, lenders, developers, EPCs, IPPs,
  - utilities, regulators, senior gvm officials & politicians

- We need to obtain feedback from stakeholders on what barriers they face in trying to get projects closed & funded or what enablers are required
  - (Feedback forms in delegate packs)

- Going forward, SADC/SAPP/RERA will need to take up more coordination responsibility in regional generation and transmission projects to clear the barriers at a country level
  - And not leave each project to go through the same challenges

Regional Electricity Regulators Association of Southern Africa

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