DBSA

EMBEDDED GENERATION INVESTMENT PROGRAMME (EGIP)

Energy Sector SIDS Pitch Sessions Presentation

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PROGRAMME RATIONALE & OBJECTIVES

- Create a market for Embedded Generation and other non-sovereign backed RE Projects in SA.
- Demonstrate to the relevant stakeholders the value of developing an RE Programme outside of the Government led REIPPP Programme.
- Validation for developers and lenders that the new RE Procurement Programme is bankable.
- Accelerate progress towards achieving the country's ambitious climate change targets.
- Create a platform for learning and improving on the current legislation and policies to allow for further development of the renewable energy market.
- Free up limited government resources for other imminent social programs and infrastructure related projects that require government guarantees.

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INCREASING ENERGY SUPPLY AND PROMOTING THE GLOBAL CLIMATE CHANGE AGENDA

BLENDED FINANCE/FIRST LOSS MECHANISM

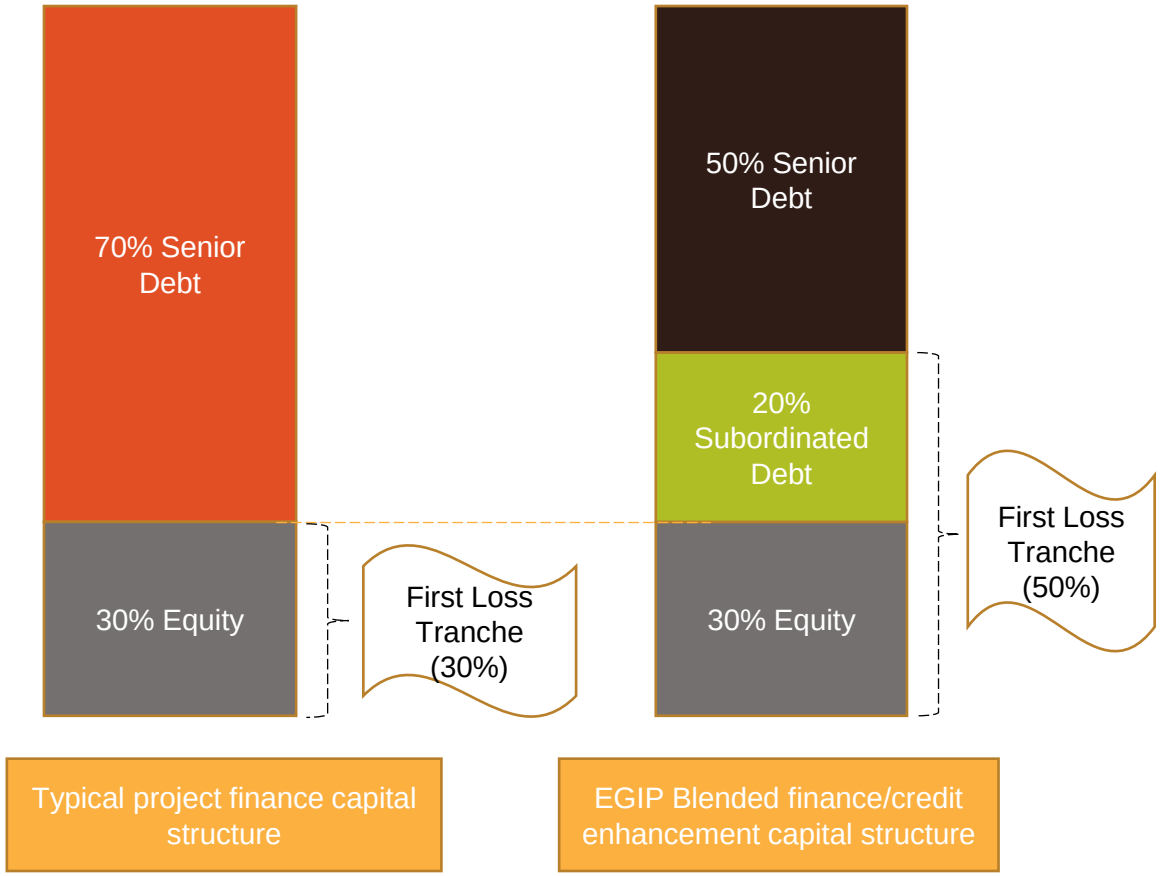
- EGIP will establish a credit enhancement mechanism/first loss facility for embedded generation projects.
- Implemented by private sector entities (in their capacity as IPPs and off-takers) and local municipalities (acting primarily as off-takers).
- Creating an enabling environment and a new funding model for continued RE investments.
- EGIP is aimed at improving the viability and bankability of the initial projects so that they reach financial close.
- This will ensure that a market for embedded generation is created in South Africa.

The funding under the Programme comprises of two components:

- **Component 1** – Credit enhancement for renewable energy investments (Subordinated Debt/First Loss Facility); and
- **Component 2** – Sustainable development through BBBEE equity financing (Junior Debt).

BLENDED FINANCE/FIRST LOSS MECHANISM

EGIP VS PROJECT FINANCE STRUCTURE



Key Features	Typical Project Finance Capital Structure	EGIP Blended Finance Capital Structure
Capital Structure	70% (senior debt): 30% (equity)	50% (senior debt): 20% (subordinated debt): 30% (equity)
First loss tranche (including equity)	30% to absorb losses ahead of senior debt	• 50% to absorb losses ahead of senior debt • Reduced Exposure At Default ("EAD") for senior debt
Additional Credit Enhancement Requirements	Government Guarantee and/or Parent Company Guarantee	None or significantly reduced levels of guarantees (due to higher debt service cover ratios and level of first loss)
DSCRs and Cash Flows Available for Debt Service (CFADS)	• Senior DSCRs-market related	• Robust senior DSCRs and CFADS due to lower senior debt gearing at 50%
Interest Rate	• Senior interest rate-market related	• Senior interest rate margin discounted due to robust CFADS, Senior DSCRs and the level of first level tranche • First loss tranche interest rate margin fully subordinated to senior debt tranche in the cash water fall and security
Additional project offerings	• N/A	• Incorporates concessional BBBEE funding for ownership of Black Industrialists and Local Community Trusts in embedded generation projects.

WHAT DOES OUR FUTURE LOOK LIKE

Doing things differently

DEVELOPMENT IMPACT

1. Playing a catalytical role in creating an alternative funding mechanism and potential crowding in of commercial institutions and DFIs to fund non-sovereign backed embedded generation projects in South Africa
   Develop regulatory framework for embedded generation projects

2. Potential for scaling up and replication in South Africa and rest of Africa
   Platform for knowledge and learning
   Climate change and sustainable development goals

3. Development impact in the following areas:
   - Provision of clean energy to households;
   - Socio-economic benefits through job creation, gender mainstreaming and lowering electricity costs; and
   - Black Economic Empowerment

REGULATORY REVIEW

IRP2019

- Promulgated in October 2019.
- Embedded generation/distributed generation allocation in the IRP as follows:
  - Allocation to the extent of short-term capacity and energy gap (from 2019 to 2022); and
  - Allocation of 500 MW per annum (from 2023-2030).

SCHEDULE 2 of ERA

- Registration only:
  - Capacity of no more than 1MW.
- Registration and licensing:
  - Capacity of more than 1MW and grid connected (EGIP).

MINISTERIAL DETERMINATIONS

- Ministerial Determination covering embedded generation are not required as there is a specific allocation in the IRP2019.

MUNICIPALITIES

- MSA and MFMA.
- Municipal PPP Regulations (including Section 33 approval process).
- Draft Regulations Amending the Electricity Regulations on New Generation Capacity.

PATH TO CLEANER ENERGY…..

ELIGIBILITY CRITERIA

- **Developer/ Sponsor**: Independent Power Producer.
- **Geographic Region**: South Africa
- **Technologies:** Solar PV and Onshore Wind.
- **Project Size:** >10 MW
- **Grid connection:** Only Grid Connected Projects.
- **Eligible Offtakers:**
  - Industrial;
  - Commercial; and
  - Municipalities.
- **Power Purchase Agreements (PPAs):**
  - Legally binding PPAs with take-or-pay obligations Take or Pay.
- **Ineligible off-takers:**
  - Projects engaged in extraction of fossil fuel.

KEY RISKS AND MITIGANTS

Key Risk	Mitigation
Default risk by the off-taker(s)	• Credit worthy off-taker(s). • Credit enhancement mechanism (first loss facilities) to mitigate default risk somewhat. • MDB's and DFIs to consider additional credit enhancement instruments. • Projects to be grid connected to enable alternative off-takers on default by the primary off-takers.
High transaction costs	• Standardised finance and project documents for embedded generation projects
Completion, Operational and technology risk	• Reputable EPC and O&M contractors with a demonstrable financial and technical track record. • The Programme will only utilise commercially proven technologies

THANK YOU