

Summary of Preliminary Information Memorandum

1. Background

The Preliminary Information Memorandum (“**PIM**”) regarding the Liquefied Natural Gas (“**LNG**”) to Power Independent Power Producer (“**IPP**”) Procurement Programme in the Republic of South Africa, together with the full Information Memorandum was released on 4 October 2016 and can be found on the website of the Department of Energy of the Republic of South Africa.¹ Users have to register an account on the website in order to access the documents.

We have set out below a brief summary of its contents.

As part of the overarching governmental effort by the Minister and Department of Energy of South Africa (“**DoE**”) to ensure that the country has affordable, accessible, sustainable and secure supply of energy, the Determination issued on 18 August 2015 outlines the procurement of 3126 megawatt of new IPP gas fired generation capacity to be generated from a variety of gas sources. Subsequently on 22 March 2016, the Minister of Energy made a further Determination for an additional 600MW.

To give effect to the Determination, the DoE will shortly be initiating a Liquefied Natural Gas Independent Power Producer Procurement Programme (“**LNG-to-Power IPP Procurement Programme**”) for 3000MW of electrical capacity, with an opportunity to also supply additional gas into a nascent gas market.

The first phase of the programme will be focusing on two locations, namely Richard Bay in KwaZulu-Natal Province and Ngqura (“**Coega**”) in the Eastern Cape Province. The DoE will allocate 3000 MW between the two ports: 1000MW to Coega and 2000MW to Richards Bay.

The LNG-to-Power IPP procurement programme will provide the anchor gas demand to the new LNG import and re-gasification facilities at the two ports. This in turn will provide the basis for the development of LNG import, storage and re-gasification facilities to be made available for use by other parties on a mandatory third party (“**Third Party Access**”) basis.

2. Project Description

The projects at each of the ports will be developed on an integrated basis under the umbrella of a single private sector SPV, which will bear full responsibility for the design and development of the marine and land-based infrastructure, including financing thereof, and the supply of the LNG.

The DoE has undertaken pre-feasibility level studies in relation to the suitability of the ports’ locations, a site assessment for power generation sites and has commenced with environmental impact assessment studies and it will make all the site related information available during the Request for Pre-Qualification (“**RFQ**”) stage of the procurement process. Bidders will be expected to assume all site development risk, including obtaining and/or finalising necessary consents and permits. Bidders will also have an opportunity to undertake due diligence of the preparatory studies as part of the procurement process.

¹ <https://gaslng.ipp-gas.co.za/>

3. Procurement Process

The timetable for the entire process is as follows:

Milestone	Anticipated Date
Issue of RFQ	November 2016
Response Submission Date	February 2017
Announcement of Pre-Qualified Bidders	April 2017
Issuance of RFP	April 2017
Engagement Process between Pre-Qualified Bidders and DoE	May 2017
Release of Final RFP	August 2017

There will be a discrete process for each of the designated ports.

- (a) **Stage 1:** Request for pre-Qualification (RFQ) – interested parties can apply for qualification by satisfying key financial and technical criteria to develop, finance and operate the proposed Project at a specified Port. Only Pre-Qualified Bidders will be eligible to proceed to Stage 2.
- (b) **Stage 2:** Request for Proposal (RFP) – in which Pre-Qualified Bidders will be invited to submit formal binding proposals in respect of each Project. They will then pay an RFP access fee of R2,000,000 and thereafter will have access to the RFP and the full suite of project agreements for the purposes of preparing their binding offers for consideration by DoE.

Each RFP will provide the detailed framework within which the successful bidder will be required to develop, finance, construct and operate the LNG-to-Power project value chain for the applicable Project. Each RFP will also include the suite of Project Agreements that the Successful Bidder will be required to enter into. A number of Project Agreements will be provided in the RFP documentation on a non-negotiable basis, while other Project Agreements, which the government is not party to, may require specific key terms and provisions to be included (these will be specified in the RFP). Pre-Qualified Bidders for a Project will be required to submit a firm bid (which includes a financial proposal) for that Project in response to the corresponding RFP.

4. Project Participation

As stated in the PIM, a bidder will be required to name the equity participants which it relies on to fulfil each of the capability qualification criteria in the RFQ. The equity participants are expected to include: the developer or operator of the gas fired facility; a LNG supplier; and a terminal operator.

Pre-qualified bidders will be required, at the RFP stage, to have South African Entity Participation (“SEAP”) at a threshold of 35%, inclusive of the set asides in respect of the State Owned Companies (“SOCs”) and the Broad-Based Share Ownership Scheme. There may be requirements to grow the SEAP over the term of the project. Additional equity participation above the threshold level will be evaluated as a competitive element in the RFP stage.

The successful bidder for each Port will take integrated risk and service delivery responsibility from the supply of LNG to the delivery of electrical generating capacity, energy and ancillary services. The LNG Supply and Purchase Agreement will need to have a degree of flexibility in the annual lift volumes to cater for the growth of the gas market.

Whilst it is clear that the plant will need to be operated with flexibility in order to provide Ancillary Services, the RFQ will set out a minimum annual dispatch level. Bidders should have experience in use of Combined Cycle Gas Turbine, Open Cycle Gas Turbine and/or gas-engine technologies to balance renewable energy generation. The term of the Power Purchase Agreement (“PPA”) and associated agreements is anticipated to be 20 years after the scheduled Commercial Operation Date.

The proposed tariff structure will be Rand (ZAR)-based and compensate for agreed fixed costs via a capacity payment; and agreed variable costs via an energy charge. According to the agreed plant performance parameters, fuel costs will be passed through to the customer via the PPA with the Buyer. The DoE together with the regulator will thus provide a mechanism for gas regulation which reduces electricity price volatility in the short to medium term and further reduce the foreign currency exposure whilst ensuring the bankability of the project.

Under the LNG-to-Power IPP Procurement Programme, the requirement to provide for Third Party Access is essential. The Project must have sufficient capacity to receive, store and re-gasify any additional LNG. The gas pipeline must hence be suitably sized. The Third Party Access arrangements will be structured accordingly to protect obligations of the Project under its PPA and its interests in storage volume and re-gasification and throughput capacity. In addition, the successful bidder will be obligated to make available a modest percentage (anticipated at 5%) of the contracted volume to its LNG SPA for use by potential gas users.

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