

IPP refinancing project underway to stimulate economy

 By [Nicci Botha](#)

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The Independent Power Producers Office (IPPO) in the Department of Minerals of Mineral Resources and Energy has launched a refinancing initiative for operational independent power producers (IPPs) aimed at stimulating economic growth.



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This was the best approach to reducing the IPPs' contribution to the wholesale electricity price, while being aligned with the project financing principles, without undermining market confidence or the procurement process, Elsa Strydom from the IPPO told a webinar under the auspices of Windaba.

In terms of background, she said there was a meeting between the minister of public enterprises and mineral resources and energy, IPPs and lenders in September 2019 to determine the way forward. From there, a task team made up of the Banking Association of Southern Africa, nominated representatives, representatives from DMRE and the IPPO was established for engagements with all the relevant stakeholders.

Progress

"The initiative was approved by minister on the basis that the refinancing was voluntary, it would shared on a minimum of a 50/50 basis but higher sharing percentages could be negotiated on a case-by-case basis, it would not lead to an increase in contingent liabilities associated with these projects, and the outcome of the refinancing would result in a reduction of tariff over the remainder of the power procurement agreement period. It is an urgent initiative and has to happen as soon as possible" Strydom said.

The minister also mandated the IPPO to run with this process, as it is an outflow for the S34 framework under which these projects were procured, and as part of that process to ensure a standardised protocol. Also this is a war room initiative, involving other stakeholders such as Eskom and the National Energy Regulator of South Africa.

Strydom said she was pleased to report that the refinancing (refi) protocol has been developed and approved. “It aims to provide a guideline to standardise the preparation and also the assessment. It clarifies what we consider to be a refi. It provides the kind of information that needs to be submitted as part of the request. It clarifies the basis on which the calculation will happen, how we will assess the impact on contingent liabilities, how the gain share will be dealt with in terms of the tariff reduction, issues of discount rates and the cost to parties and also the assurance required from independent auditors and timeline of turnarounds.”

In terms of the implementation of the initiative, the office sent out an invitation to all the IPPs at the end of May for them to indicate, on a non-binding basis, if they planned to refi, as well as their intended timelines. “The response at the end of May was very positive from 70% of the 64 operational IPPS, most indicating that their timelines were four to six months. There are those who were already planning a refi and will be ready to submit by the end of July. We really hope to show some good progress by September. We do, however, understand that the Covid-19 situation does impact on the circumstances and could also impact timelines.”

Next key step

She said the office would be issuing the refi protocol guidelines and templates of what type of information the IPP needs to submit and how the assessment will be undertaken. “We are committed to continued engagement with all stakeholders.”

ABOUT NICCI BOTHA

Nicci Botha has been wordsmithing for more than 20 years, covering just about every subject under the sun and then some. She's strung together words on sustainable development, maritime matters, mining, marketing, medical, lifestyle... and that elixir of life - chocolate. Nicci has worked for local and international media houses including Primedia, Caxton, Lloyd's and Reuters. Her new passion is digital media.

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