

CTF – AfDB & IFC SOUTH AFRICA SUSTAINABLE ENERGY ACCELERATION PROGRAM

Comments/Questions from CTF TFC

		Comments/Questions	Responses
France	14.	<p>The project is really promising and we support it. However, we are not satisfied by the answer provided by IFC to question 13 on the level of concessionality. It is good to know that the methodology used was the one which had to be used according to the principles. Our question, which we hope was clear enough and would like to see answered, was slightly different: how was determined that such an important level of concessionality was needed to make these projects possible?</p>	<p>We want to reiterate that we are not requesting this amount of concessionality for all projects. We are asking for the ability to potentially provide this amount of concessionality for specific cases where it is determined to be needed during due diligence. The pricing is intended to be a floor only.</p> <p>In considering the economics of renewable energy the MDBs have studied the regulator's assumptions in calculating the REFIT tariff as well as had discussions with potential industrial off-takers to understand what they might be willing to pay for directly purchased renewable energy. It is the MDBs' view that the proposed REFIT tariffs will be sufficient to support renewable energy sector growth sustainably and the program only proposes to give relatively small amounts of concession to early projects approved under the REFIT program, adjusted for specific project economics, to account for the increased costs experienced by pioneer developers. For projects supported outside/prior to the REFIT program, the CTF concessionary funds must bridge the gap between what industrial off-takers are willing to pay and what the renewable energy projects need as a sustainable tariff. This gap is large due to the very low tariffs charged historically and currently by Eskom for grid supplied power. A significant concession is therefore needed to enable such early projects, particularly given very low cost dollar debt still has a reasonably high interest rate when converted into local currency and that CTF does not allow flexibility for local currency lending. In the long-term concessionality requirements should drop as the price of grid supplied power in South Africa increases and the cost of renewable energy equipment globally reduces.</p>

UK	15.	<p>In reviewing them we require further clarification and quantification of the developmental impact of the projects. In particular, we would like to have a more in depth understanding of the developmental impact of the cogeneration projects. these are not clear in the proposal at present. A number of the other projects (for example those in the Philippines proposal) have gone into detail setting out the impacts. In addition we would like to see these then carried through to the performance indicators as targets drawing on the CTF results framework.</p>	<p>In terms of GHG emissions reduction per dollar investment, co-generation projects are by far the most efficient in GHG reductions in the power sector.</p> <p>Cogeneration is one of the cheapest way to reduce energy consumption. This decrease in consumption leads to reduced pressure on the grid, and reduces the possibility of blackouts (which has significant effects on the poor). If there are outages, the cost to the economy will be huge (e.g. in 2008 the near collapse of the grid forced mines to close for days and losses from gold and platinum alone, which account for 25% of South Africa's exports, were estimated at ZAR 200 million per day during the closure). In the past, the Government of South Africa has imposed 10% cuts on Eskom consumption by heavy power users when outages are occurring. This has large economic costs and any company that can generate a percentage of its own electricity requirement will be in a far better position.</p> <p>Many of the companies that could implement cogeneration are in the mining and beneficiation industries. It is therefore important that they remain globally competitive. Cogeneration will help reduce operating costs, especially in the context of rising energy costs, and therefore help them achieve this. Many of these companies employ large numbers of people, so their survival is important to South Africa. Furthermore, co-gen plants will lead to temporary job creation during the construction phase, and also create permanent jobs to manage the plants</p> <p>Overall, the underlying projects that will comprise this program are variable in size and nature; developers have different strategies, and only once the MDBs are mandated can the specific aspects be quantified for a particular project. We will be monitoring and reporting on the expected development impacts of cogeneration projects as part of this program.</p>
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