

South African Department of Energy calls for Expressions of Interest for 600 MW Gas Fired Power Plant

Part 2

June 2016

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The South African Department of Energy has published an Expression of Interest calling on the private sector to indicate interest in developing a 600 MW gas-fired power project alongside one or more state-owned companies. This project will exist in parallel with South Africa's 3,126 MW LNG to Power IPP Procurement Programme. The EOI sets out the anticipated parameters of the 600 MW programme and the required content to be included when submitting a response to the Expression of Interest.

On 16 May 2016, the South African Department of Energy published a document calling for expressions of interest ("EOI") to gauge private sector interest in being appointed as strategic partner ("**Strategic Partner**") to one or more state-owned companies ("**SOCs**") for the purposes of developing a 600 MW gas-fired power plant ("**Project**"). The SOC's themselves are not identified in the EOI but may include one or both of Transnet (South Africa's rail, port and pipeline company) and PetroSA (South Africa's national oil company), amongst others.

On 27 May 2016, the Minister of Energy ("**Minister**") and the Chairperson of the National Energy Regulator ("**NERSA**") issued a determination calling for the procurement of 600 MW of new generation capacity from any gas type or source (the "**600 MW Determination**").

Clarification of Nature of LNG to Power IPP Procurement Programme

The EOI describes the 3,126 MW gas-to-power procurement process arising from the 18 August 2015 determination of the Minister of Energy ("**Minister**") as the "*LNG to Power IPP Procurement Programme*" (the "**LNG to Power IPPP**") and clarifies that the EOI is in respect of the 600MW Determination. The 600 MW Determination is "*in addition to and not a substitute for*" the LNG to Power IPPP.

Project Procurement Structure

The procurement process for the Project is likely to consist of an RFQ followed by an RFP, similar to previous South African IPP programmes. The timeframe for the achievement of commercial operation will be clarified in the RFQ. The EOI clarifies that the outcomes and timing of the program developed in respect of the 600 MW Determination is intended to be aligned with the LNG to Power IPPP..

Strategic Partners will be required to bid prices that will be paid by Eskom Holdings SOC Limited (“**Eskom**”) in their Bid Response to the RFP, which may include minimum load factors. It is envisaged that the Strategic Partner will either “*be provided with the commercial terms of the gas supply and gas transportation or be invited to submit proposed commercial terms for its own gas supply and gas transportation*” – something that will be clarified in the RFQ.

The EOI clarifies that the power generation facility is anticipated to operate as either a baseload or mid-merit power source and that gas will be purchased either directly by the Project Company (if cost effective) or potentially under a Gas Sale Agreement (“**GSA**”), using gas sourced under the LNG to Power IPPP. The location of the Project will accordingly be informed by the port and site development work conducted in preparation for the LNG to Power IPPP – in all likelihood, one of Coega, Richards Bay or Saldanha Bay.

The basic contractual structure will be similar to that employed under previous South African IPP programmes: a Project Company will be established to enter into a PPA with Eskom and an implementation agreement with the DoE, together with direct agreements. These documents will be issued pursuant to an RFP and will be non-negotiable. In addition to these documents, the contractual suite may include a form of Gas Supply Agreement, a Gas Transportation Agreement and connection agreements.

Role of Strategic Partner and role of SOCs

The Project will be implemented in conjunction with one or more SOCs. The identity or role of the SOCs who will act as direct participants in the Project is not clarified but it is specified that the relevant SOC(s) will only hold a minority equity stake in the Project. The actual holding has not yet been specified.

What is made clear, however, is that the Strategic Partner will act as lead developer in respect of the Project. In the EOI, the DoE contemplates that the Strategic Partner’s role will include:

- finalizing a suitable Project Site, in consultation with the relevant land owners;
- finalizing land tenure arrangements with the relevant land owner;
- completing all permitting and authorizations to implement the Project on the Project Site;
- settling all agreements required to construct, finance, commission, operate and maintain the Power Generation Facility for the term of the PPA;
- either contributing or secure the contribution of the required equity finance for the Project;
- procuring the provision of all required debt finance for the Project;
- assisting with any due diligence that may be required by any equity investor into the Project;
- facilitating the equity participation of Black Enterprises and/or Black People in the Project;
- ensuring that the construction of the Power Generation Facility is completed on-time and on-budget; and
- facilitating the establishment of manufacturing facilities, where the initial ‘anchor’ customer for such manufacturing opportunities within the gas to power value chain will be the Power Generation Facility.

Required contents of EOI response

The submission of an EOI response (“**EOI Response**”) is requested from any organization that wishes to eventually submit a Bid Response under the RFP (when the latter is issued). The EOI states that the DoE will use the responses received under the EOI to design the RFP.

The EOI Response is required to include, amongst other things, the following substantive information (together with all necessary supporting documents) in relation to the Project proposed by the Strategic Partner:

- If the prospective Strategic Partner has finalized the composition of its consortium (noting that it is not a requirement of the EOI Response that the consortium is finalized for the submission of an EOI Response),

the details and BEE status of its consortium members, their anticipated roles within the consortium, the status of discussions and agreements in place between consortium members and the percent of equity holding of each member of the consortium (including any SOCs), indicating where any members have minimum equity requirements;

- The indicative approach as to how the Strategic Partner will:
 - partner with the State-Owned Company in implementing the Project;
 - address the technical and financial capabilities required to develop and implement the Project (in relation to the identified expertise of consortium members in implementing power generation projects at a scale similar to that of the Project, citing the relevant project name, location, dates the work was performed, key milestone dates, partners in the project, the member's roles and responsibilities in the project, approximate capital expenditure of the work performed and operational expenditure of the project);
 - if that Strategic Partner can show previous experience in facilitating the creation of manufacturing opportunities, provide details of the manufacturing facility, its location, the component being manufactured, the member's roles and responsibilities in the facilitation or creation of such opportunity.

Requests for clarification to the EOI must be submitted by no later than 7 days before the deadline for delivering an EOI Response to the DoE, which is 17h00 on 20 June 2016.

Web Links

The full EOI document can be accessed at <https://gas600.ipp-gas.co.za/> and the 600 MW determination is available at http://www.gov.za/sites/www.gov.za/files/40023_gon602.pdf.

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