



Introduction to the SAPP Project Advisory Unit

Omar Vajeth

Head: SAPP-PAU

Omar.Vajeth@SAPP-PAU.com

May 2016



Contents

1. Introduction and status to the SAPP project advisory unit
2. Transmission Line Financing
3. Current projects

Introduction to the SAPP-PAU

The SAPP-PAU is a division of SAPP:

- Accountable for the preparation and implementation of agreed priority projects in SAPP

By utilising grant funding the PAU will:

- Conduct regional analytical work,
- Screen, select, prepare and monitor the implementation of regional priority projects, and
- Play an advisory role to SADC governments and utilities

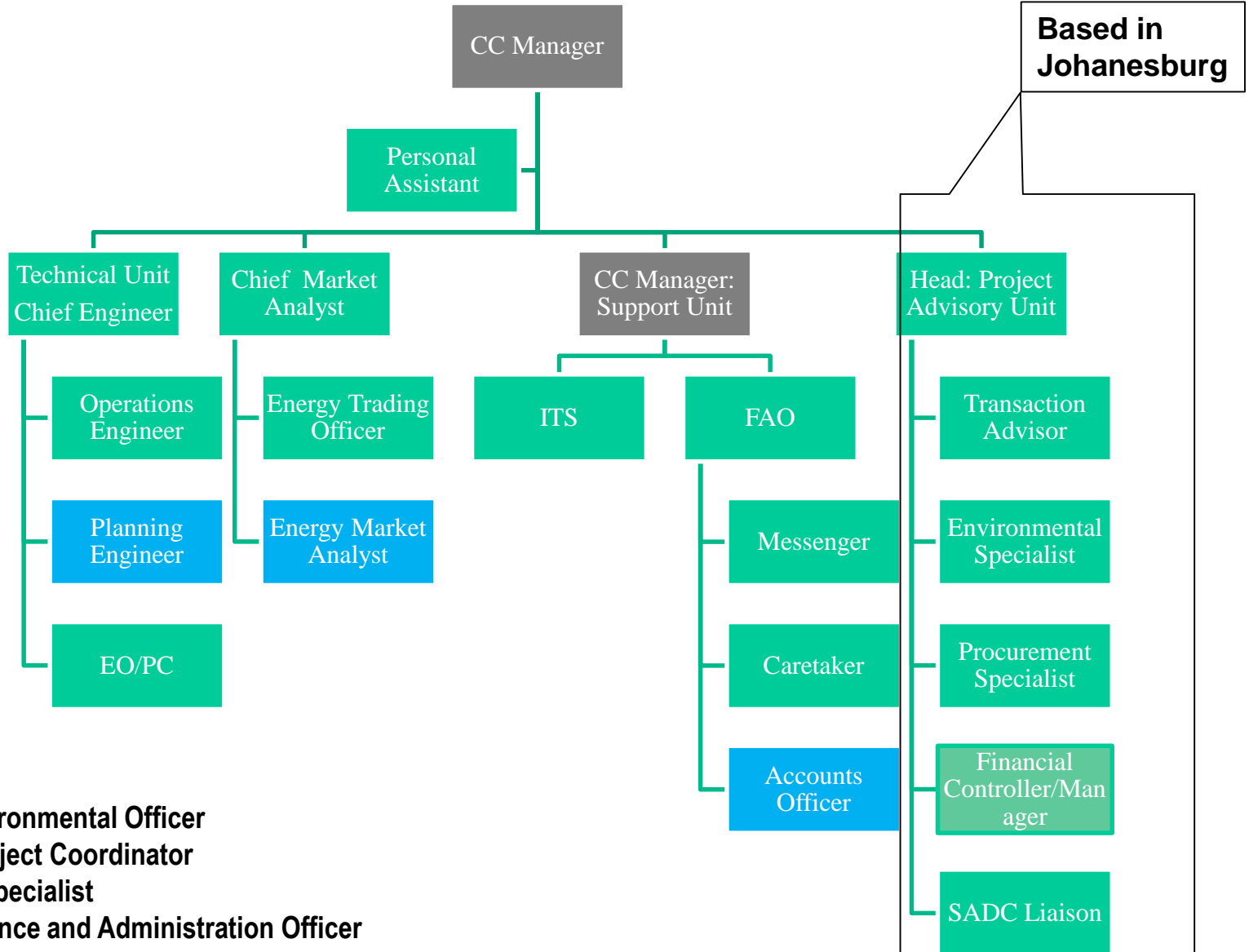
IDA Grant Components

Funding from the International Development Agency (“IDA”) has been divided into three components:

1. **Component A:** Setting up the PAU under the SAPP (US\$ 7 million) which would fund the mobilization of a team (including supporting specialist)
2. **Component B:** Project Preparation Funds (US\$10 million, initially).
The funds in this Component would be managed by the PAU. Key focus will be on projects environmental and social performance.
3. **Component C:** Analytical support to SAPP (US\$3 million).
This component would support analytical work to update critical non-project specific information used by SAPP to support project preparation, including revision of the SAPP Pool Plan.



SAPP – PAU: A division of SAPP



Key

EO/PC = Environmental Officer
/ Project Coordinator

ITS = IT Specialist

FAO = Finance and Administration Officer

 = Vacant position



SAPP-PAU Status

Operational

- Currently utilising temporary offices in Sunninghill - Johannesburg
- **The unit is operational – fully staffed**

- Next steps:
 - **TOR's being developed for Technical, Legal, Environmental, insurance and Financial (“modelling”) advisors.** These resource will be available for preparation of projects in the SAPP

Project

- Zizabona
 - Working on funding models and structures
 - To meet with sponsors to finalise structure and negotiate risk allocations
 - Appoint legal advisor and finalise documentation across the project

- STE/Mpanda Nkua
 - Currently finalising scope of work with the Sponsors

- Mozisa/BOSA
 - Currently in execution

- Other projects
 - Working on projects with other SAPP utilities
 - There is an agreed process to release funding for project preparation.

SAPP-CC analytical support :

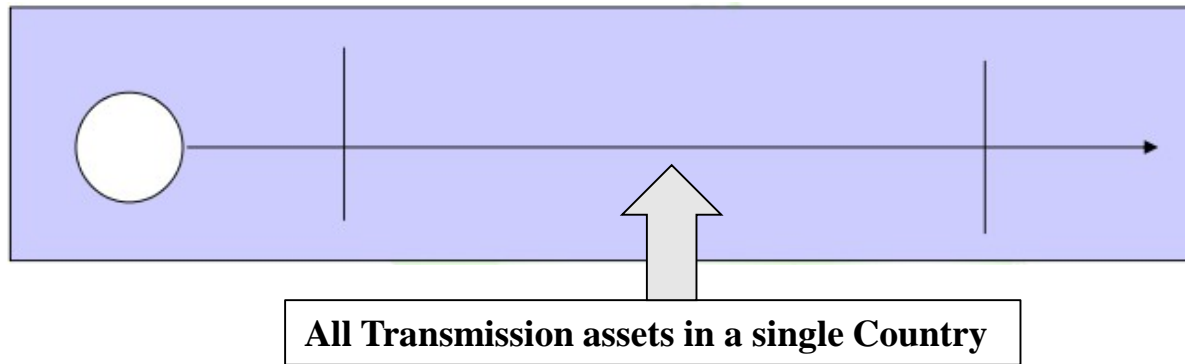
- Pool Plan started under the PSC: SAPP-PAU to provide project management and environmental support
- Environmental Management and Social Framework: being led by the SAPP-PAU with Environmental subcommittee support.
- Launched EOI for the EAPP and SAPP integration study



Transmission line financing

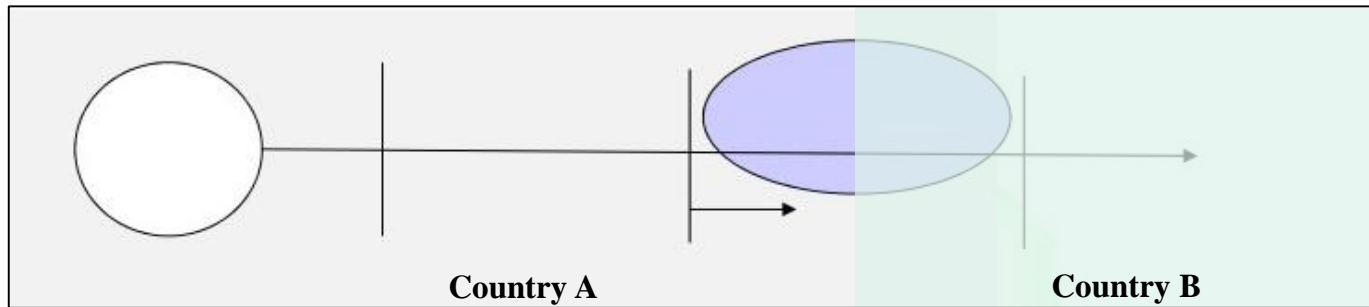


Typical Utility Transmission line ownership and construction



- **One utility and one country** owns assets including licenses.
- Transmission line designed, constructed and owned by Utility
- Construction done on an **EPC basis, EPCM basis or on utility managed contracts**
- Financing is usually done **on balance sheet** using corporate credit
 - Debt raised on balance sheet (ECA, donors, bonds etc)
- **Owner takes all risk:**
 - Construction risk (performance, time and cost)
 - Operational risk (Availability)
 - Political risk
 - Force Majeure risk
 - Cash flow managed via internal transfer pricing typically on a cost recovery basis plus an acceptable return.
- The **customer enters into a supply agreement** and in some instances contributes towards the cost of the line.

Multi country/Utility inter-regional transmission lines



- Some problem areas:
 - **Multiple ownership of the transmission line** – multiple licensing with utility already in possession of license (SPV ownership may not work in some jurisdictions)
 - **Multiple offtakers** (could be in different countries)
 - **Generation availability** (Capacity constraints and more problematic if anchored by single power plant)
 - Possibility of additional **future** generation (cost sharing) and demand
 - **Transmission availability** impact to generation
 - Impact of **availability on other generation and transmission assets** – EG. Cascading faults

This leads to a complex risk allocation process– FM, network risk, buyer default

Transmission Line Structuring Considerations for bankability

- **Delink** specific IPP/generation plants and Transmission projects
 - What's is need is an underlying PPA that builds the business case for the transmission line
- The **risk of generation capacity availability** must not rest with the Transmission Line
- Follow a “Ship” or pay principle as used for pipelines (**Take or pay**)
- Offtakers agree to **buy capacity** on the line for the duration of the debt period plus a “tail”
- **Multiple offtakers** of “Transmission Capacity” need to be **prioritise**.
- Offtaker to be **credit enhanced** via government support arrangements where needed
- **Unlock DFI/concessionary and donor funding** first then commercial debt. Transmission lines need lowest-cost funding
- **Risk Allocations** need to addressed –Force majeure, termination
- Critical factor: the transmission line is **not dependent on energy charges** for cash flow. Irrespective of funding source there will always be a need for firm dependable cash flows.

The objective is a bankable wheeling agreement

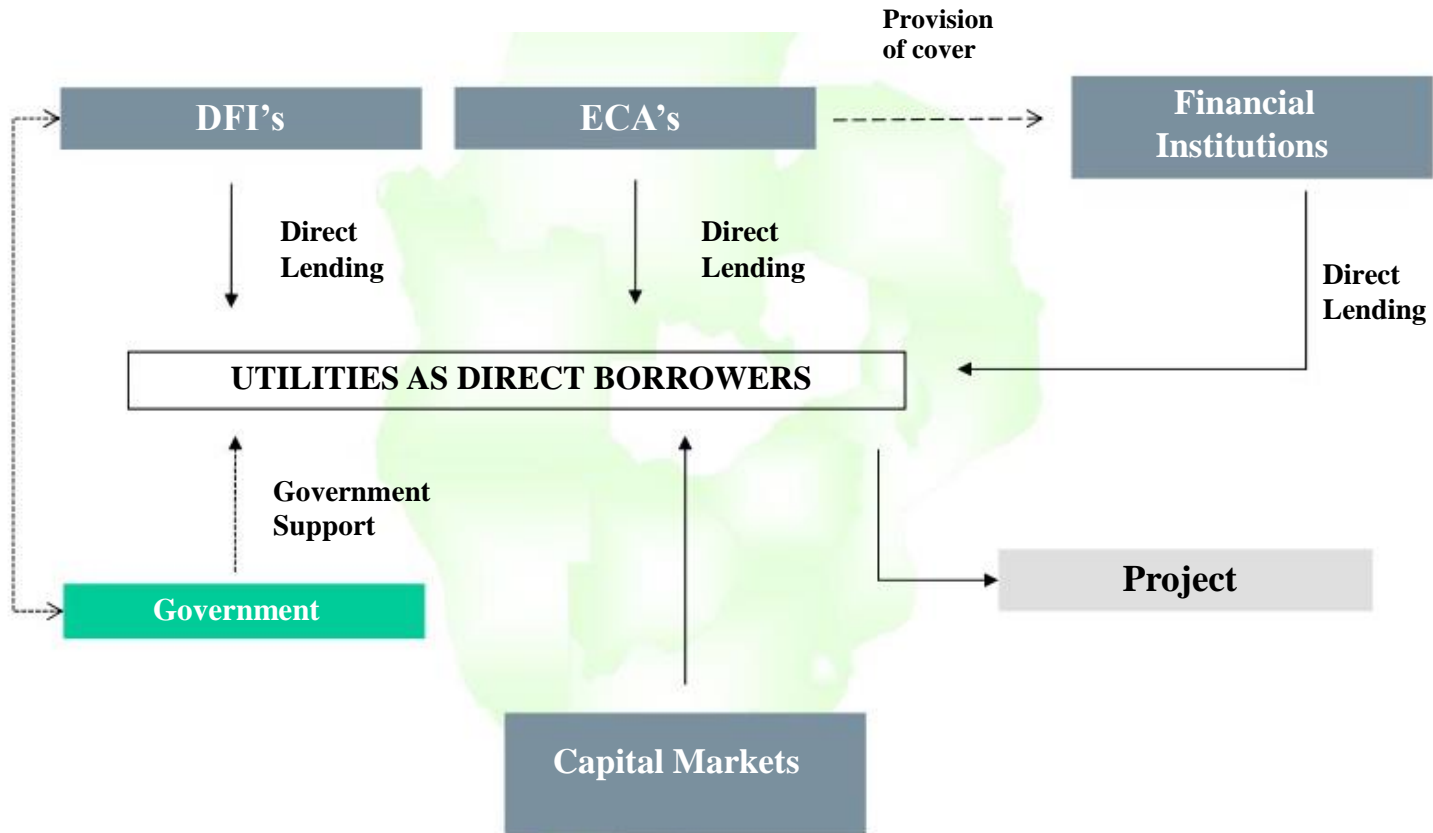


Funding Structures



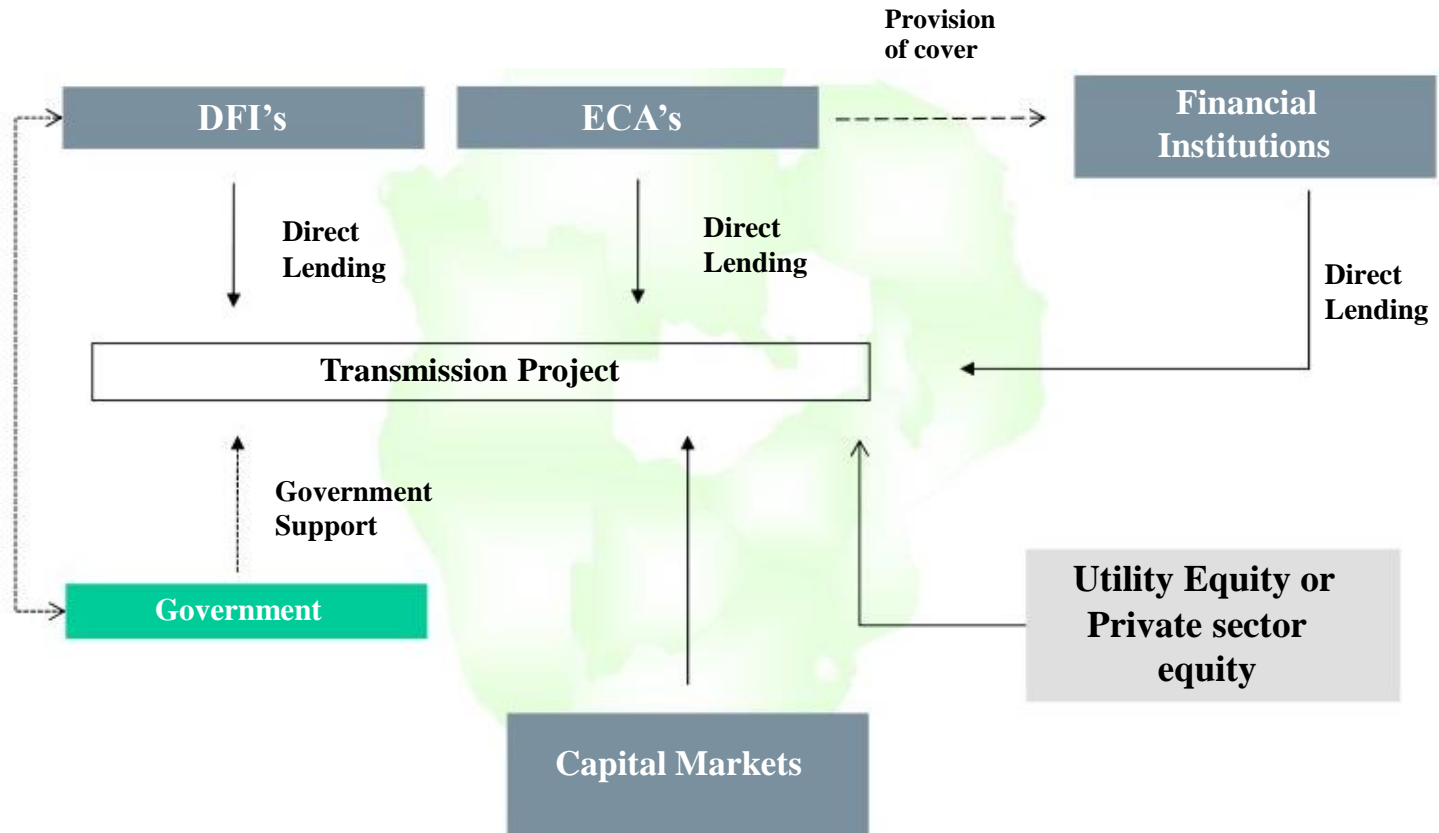
Typical Traditional Transmission line funding via corporate debt

All liquidity pools will need to be tapped for the project



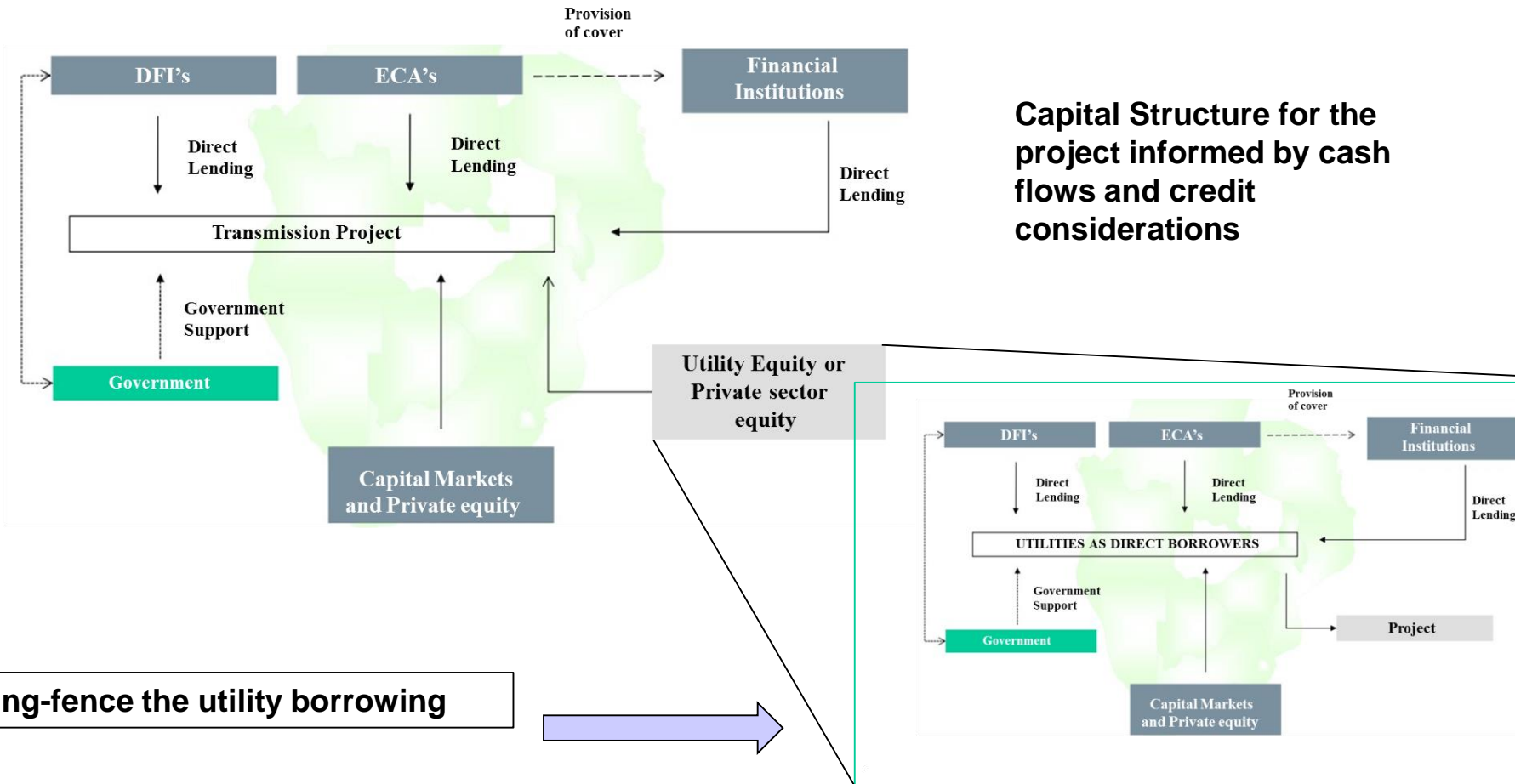
Project Finance

All liquidity pools will need to be tapped for the project



Transmission Line Financing

- Combination of the two funding structures



Capital Structure for the project informed by cash flows and credit considerations

Project status - Details

STE – Mozambique Backbone and Mpande Nkua

- The project has been “resuscitated” by the Government of Mozambique
- Engaging with UTIP, the GOM, EDM, and HCB on support that can be provided.
- Technical and environmental work has been progressed substantially – revision required

Project Stakeholders:	Role	Project Party
	Sponsors	EDM HCB
	Transaction Advisor	To be appointed
	Other Stakeholders	SADC, SAPP, ESKOM, Regional Utilities
	Financiers	Still to be determined – donors expressed interest
	Project Management	UTIP – Government department SAPP-PAU involvement being discussed



Zimbabwe – Zambia – Botswana – Namibia (ZIZABONA)

Project Scope:

- Phase 1: Hwange-Victoria Falls-Livingstone line, utilizing the existing ZESA-NamPower 80MW PPA (15year) and the existing 220kV Livingstone-Zambezi –Caprivi lines
- Phase 2: Victoria Falls-Pandamatenga and Livingstone-Zambezi lines.

Project Cost:

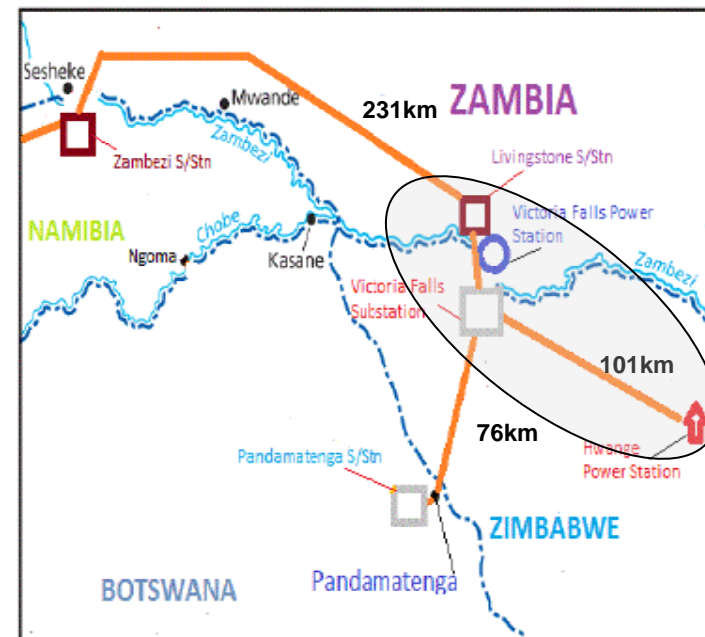
Total Cost USD 223 million
 First phase USD 33 million

Project Status:

- Consultants were appointed for the 3 packages with funding from the AfDB
- Transaction Advisor (TA), Fitchner to complete scoping and preparation of tender documents for the EPC contractor
- ESIA completed in Botswana, Namibia & Zimbabwe

Next steps

- Updated structure being discussed and negotiated with Sponsors
- Legal workstream to start finalising contractual structure.
- Financial model development



Role	Project Party
Sponsors	ZESA (Zimbabwe)
	ZESCO (Zambia)
	BPC (Botswana)
	NamPower (Namibia)
Transaction Advisors	Fitchner (current Advisor)
Environmental Consultants	SWECO (ESIA for line in Zambia)
Financiers	African Development Bank (AfDB) Norway/Sweden Trust Fund
Project Management	SAPP CC (via SAPP-PAU)

Project Stakeholders:



Mozambique – Zimbabwe – South Africa (MOZISA)

Project Scope:

- 935 KM of 400 KV transmission line across three countries

Project Cost:

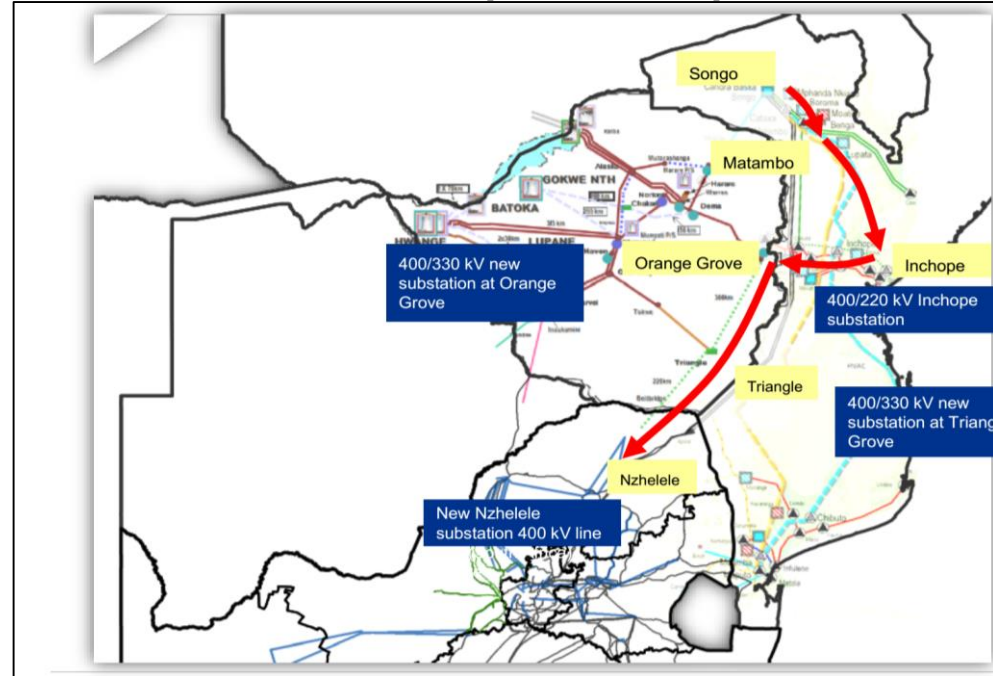
- Estimated Total project cost will be US\$342.2 million made up of the following components US\$132.2 million (Zimbabwe – Mozambique), US\$210 million (Zimbabwe South Africa)

Expected Benefits

- **Mozambique excess capacity** to be traded in the region.
- **Increase capacity** in Zimbabwe unlocking bottlenecks

Project Status:

- Inception Report to be completed
- Feasibility Report is in progress
- ESIA is in progress
- Steady State Modelling has commenced
- transmission line route being finalised



Project Stakeholders:	Role	Project Party
	Sponsors	EDM (Mozambique) ZESA (Zimbabwe) Eskom (South Africa)
	Transaction Advisors	KPMG Services Proprietary Limited, Trans-Africa Project (Pty) Limited (TAP) – Technical GIBB (Pty) Limited – Environmental Studies Norton Rose Fulbright - Legal
	Sub-Contractors	Baagi Environmental Consultancy
	Financiers	Development Bank of Southern Africa (DBSA) KfW
	Project Management	SAPP CC (via SAPP-PAU)

Botswana – South Africa (BOSA) Interconnector

Project Scope:

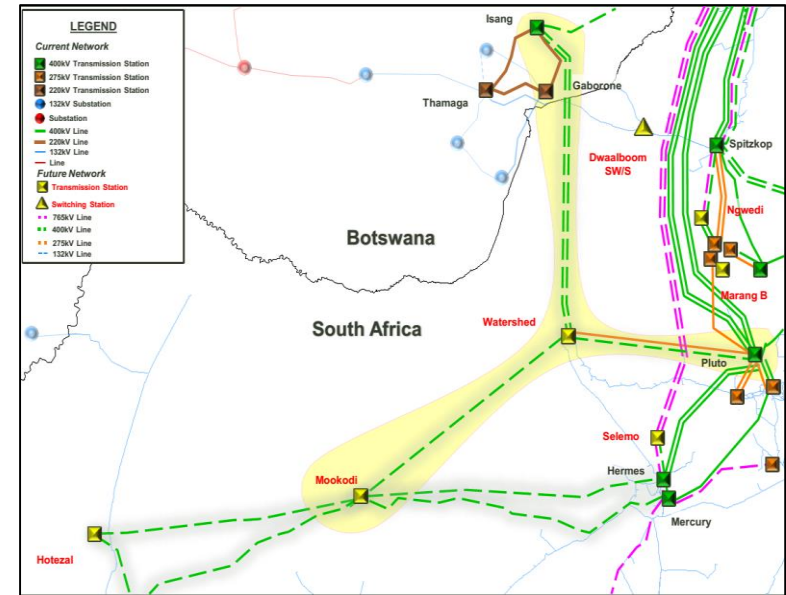
- Close to 560 KM of transmission line to be built and operated at 400KV

Total Project cost

Still do be determined

Status

- Aurecon appointed as Transaction Advisor
- Project Kick-off meeting held
- Project Steering Committee comprising the key project stakeholders to be established
- Training component including transfer of skills to the utilities and SAPP will be proposed



Project Stakeholders:	Role	Project Party
	Sponsors	BPC (Botswana) Eskom (South Africa)
	Transaction Advisor	Aurecon (Technical) Herbert Smith Freehills (Legal) EOH (Environment) J Maynard Project Advisory Services
	Financiers	DBSA
	Project Management	SAPP CC (via SAPP-PAU)

Conclusion

- The SAPP-PAU is a division of SAPP. It is **not** a new organisation.
- **High risk development funds** and resources have been made available to the region for power projects.
- It is a great opportunity to unlock projects and drive them forward.

THANK YOU

