



Funding & Financing - IRP 2010 Input Parameter information sheet (Supply input)

This sheet is to be used as the primary stakeholder engagement tool. This document provides the information that will allow the stakeholders to make a meaningful contribution to the IRP Input parameters

Parameter	Funding & Financing
Purpose	<p>A sustainable long-term and cost efficient funding plan is central to the investment in new generation capacity to meet anticipated demand, as well as the viability of existing generation capacity. The viability of any proposed new investment in new generation capacity is dependent upon, <i>inter alia</i>, a funding plan that offers a financing solution at an optimal cost, having regard for the associated risk in making such investments. To achieve both long-term sustainability and cost efficiency, an appropriate balance between the following sources of funding needs to be achieved:</p> <ul style="list-style-type: none">▪ Debt raised from various debt markets / lenders, with implicit or explicit government support▪ Regulatory revenue and tariffs▪ Equity raised from government directly or state-owned financial institutions (both locally and internationally), or from the private sector
Impact on the IRP	<p>In the absence of a credible and sustainable long term funding plan, that provides an optimal funding solution, proposed new investment in new generation is unlikely to be viable.</p>
The assumptions included in establishing the parameter values in this sheet	<p>In determining an optimal funding plan cognizance needs to be taken of the interrelationship between the sources of funding.</p> <p>The ability to attract debt funding is largely a function of lenders</p>



	<p>and credit rating agencies' views of the borrower's ability to service and redeem the debt, whilst maintaining a healthy balance sheet. Credit rating agencies play a pivotal role and have a direct material impact on the borrower's ability to raise debt funding and the cost of debt funding.</p> <p>Regulated revenue and tariffs give lenders' (and credit rating agencies) guidance as to whether the borrower will have sufficient internally generated net cash flow to service and redeem its debt, whilst the borrower's equity position will determine whether it has the financial stability (equity buffer) to withstand unforeseen events. The higher the regulated tariff and the stronger the equity position, the more likely it is for the borrower to raise substantial debt funding at a reasonable cost.</p> <p>To attract equity finance, the equity financier will require an appropriate return on its investment, which is a function of, <i>inter alia</i>, the regulated tariff and the cost of debt funding. Equity investors will require a clear insight into the business plan, and will need to gain confidence in the governance structures and the ability of management to implement the business plan.</p> <p>To the extent that sufficient equity funding is raised, tariff increases can be moderated in the short term. However, equity is the most expensive form of funding, which will have an adverse impact on tariffs in the long run.</p>
Parameter Value	<p>Values are being updated based on the latest assumptions, the actual NERSA increases and a position on what Eskom will and will not do. These will also separate the funding of Eskom up to the completion of Kusile from the funding of the overall IRP 2010.</p> <p>The project capital expenditure in the Generation assets up to the financial year 2015 is R338 billion as the Eskom 30th of November 2009 MYPD2 application. Based on a 35%, 35%, 35%, 13% and 13%</p>



price increase trajectory, there was funding shortfall of R14 billion.

The anticipated future funding requirements for new generation capacity per year (In real teams) is as follows:

Year	Rm
2 010	27 822
2 011	28 323
2 012	28 145
2 013	28 347
2 014	30 110
2 015	31 512
2 016	30 629
2 017	44 389
2 018	32 272
2 019	33 296
2 020	30 648
2 021	30 346
2 022	27 817
2 023	27 356
2 024	57 606
2 025	54 707
2 026	78 093
2 027	74 126
2 028	45 870
2 029	64 637

Source IRP1

Range of Parameter Value

The overall funding requirement is a function of, *inter alia*, the extent and timing of the new build program, required to meet demand, as well as who will be responsible for new capacity. Choices that need to be considered include:



	<ul style="list-style-type: none">▪ The re-phasing of build projects and contracts▪ Delays and / or rescheduling of projects (e.g. Kusile) and concomitant costs;▪ The introduction of more IPP / own generation options (post the MYPD2 period);▪ The next coal fired power station (Coal 3);▪ Nuclear options;▪ Pursuing renewable projects (Wind, Solar and others);▪ Imports;▪ Government's position and strategy on climate change. <p>The availability of fund will be influenced by, <i>inter alia</i>:</p> <ul style="list-style-type: none">▪ The equity funding options available to Eskom;▪ The extent and timing of government's guarantees and likely further support;▪ Eskom's credit rating and implications of the funding plan on the credit rating;▪ Financial market capacity, locally and abroad, following the financial crisis, which has impacted both liquidity and the cost of funding; and▪ Competing government sponsored infrastructure projects;▪ Access to sources of funding by the private sector, that otherwise would not be available to Eskom.
<p>Preconditions necessary to make possible for this parameter to be included in</p>	<p>Government, through National Treasury, agreeing it position on additional fiscal support it could provide Eskom.</p> <p>Enabling regulatory environment that would facilitate the</p>



the IRP	participation of the private sector in the provision of new generation. <ul style="list-style-type: none">▪ Establishment of a independent system operator outside of Eskom;▪ A long-term cost reflective tariff price path, whilst providing the equity investor with an appropriate return;▪ Bankable security of off-take - Eskom or any other “Buyer” will not likely be considered a bankable counterparty without government support.
Parameter Owner	National Treasury