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& energy

Department:
Mineral Resources and Energy
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MEDIA RELEASE

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PRICING OF PROJECTS UNDER THE RISK MITIGATION INDEPENDENT POWER PRODUCER PROCUREMENT PROGRAMME (RMIPPPP)

The Department of Mineral Resources and Energy (DMRE) has noted inaccurate media reports on the pricing of projects appointed as Preferred Bidders under the Risk Mitigation Independent Power Producer Procurement Programme (RMIPPPP) in recent weeks.

Certain media houses and journalists, including AmaBhungane, appear to misunderstand the basis for the evaluation of all bidders under the RMIPPPP, including the payment mechanism underlying the Power Purchase Agreement (PPA), which was set out in the Request for Proposals (RFP).

The matters of effective tariffs and take-or-pay concessions raised specifically by AmaBhungane have been clarified before and are also addressed clearly in the Department's factual summary of the RMIPPPP (Risk Mitigation IPP Programme in Context which can be found at https://www.ipp-rm.co.za/.)

The "take or pay" concept is a global standard in any commercial contract where there is an obligation on the power plant to supply when there is a dispatch instruction from the system operator. This is not new in South Africa, and in fact all IPP Programmes procured to date have followed a similar payment mechanism, including wind or solar energy projects.

The tariff is an all-in tariff with the IPP taking all risks associated with availability and performance. There is no guaranteed payment under the RMIPPPP. Eskom has made a Minimum Load Commitment and will only pay for actual Energy Output if delivered in response to a dispatch instruction from the System Operator.

The Evaluation Price used to rank the bidders was set at the base date of April 2020 and was calculated as a weighted average price made up of 95% for Capacity and Energy Output price and 5% for Ancillary Services price. This was done for the purpose of comparing the bids in a fair manner.

The actual payments to the Sellers (IPPs) by the Buyer (Eskom) may differ depending on the dispatch instruction from the System Operator for the specific service rendered. For example, an IPP will only charge Eskom for additional ancillary services or energy on the basis of what is required by the System Operator.

Eskom has no obligation to purchase the ancillary services, but for purposes of the evaluation, the procurer required every bidder to assume that 5% Ancillary services price is an input into the evaluation price to ensure fairness.

In response to the Request for Proposals (RFP), the Bidders submitted Charge Rates which include fixed and variable components, including:

- Capital Costs Recovery Rate;
- Fixed Operational and Maintenance Cost Rate;
- Fuel Charge Rate - applicable to projects utilizing diesel or gas;
- Variable Operational Cost Rate; and
- Rates for providing the mandatory ancillary services specified by the System Operator.

Preferred Bidders submitted these Charge Rates as at Bid Stage (at the April 2020 base rate), to NERSA as part of their license application.

The payment mechanism in the PPA allows Eskom to compensate the IPP for the Capacity available, energy output and ancillary services. The energy payment will be based on the Fuel Charge Rate, if applicable, and the Variable Cost Charge Rate, based on actual energy output delivered. Both fuel and non-fuel projects can only recover the variable charge rates if dispatched.

In terms of the Renewable Energy IPP Programme wind or solar energy PPA, there is no capacity charge, but Eskom is obliged to pay for all energy delivered to the grid. Therefore, there is no need for a capacity charge.

The RMIPPPP has a capacity charge to ensure that the dispatchable generation plant maintains the contracted capacity as per the PPA. If the capacity is not available for a period, Eskom doesn’t pay the IPP for the capacity that is not available for operation over that period.

It is also critical to understand that IPPs under the RMIPPPP are required to provide capacity, ancillary services, and energy to the buyer, whilst a typical wind or solar energy project provides only energy. As indicated above, the pricing mechanism in the PPA for the RMIPPPP allows the IPP to recover the cost associated with all of these services if the service is available.

It is therefore incorrect to assume that the IPPs under the RMIPPPP will have guaranteed revenue, as the IPPs are required to be available and be able to generate on instruction from the system operator, in order to receive the capacity payment and energy payment respectively.

The Minimum Load Commitment made by Eskom is necessary as the plant will be dispatched at the discretion of the System Operator, and therefore the IPP needs some degree of certainty of being dispatched to have a viable business case.

The Minimum Load Commitment which the Buyer must achieve in any given contract year, starting from the Commercial Operation Date, is equal to 72.727% of the sum of the Net Available Capacity (MW), measured for every hour during the dispatchable period of that particular year.

The difference, if any, between the minimum load commitment and the actual dispatch instructions will be reconciled on a monthly basis and paid annually based on the annual cumulative difference. This means that if, for example, at the end of the year the plant was dispatched above the minimum load commitment for the year, there will be no payment. This is normal practice for contracting of dispatchable power plants.

It is important for the procurer to indicate the Minimum Load Commitment in the RFP to ensure that every bidder prices their bid according to the required commitment.

The Department remains committed to ensuring that the RMIPPPP procurement process is concluded in order to ensure that additional power is brought online in the shortest possible time.

The RMIPPPP bid window was released to the market in August 2020, following the promulgation of the Ministerial Determination of 2 000MW, with concurrence from NERSA.

The main objective of the bid window is to help close the immediate supply gap indicated in the Integrated Resource Plan (IRP2019) and reduce the extensive utilisation of expensive diesel-based peaking electrical generators in the medium to long-term.

The 11 Preferred Bidder projects, totaling 1 995.76 MW, offer a combination of technologies and facilities at the same or different geographical locations across South Africa.

For enquiries: mediadesk@energy.gov.za | media@dmre.gov.za

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