BUSINESS DAY, Companies & Markets
16 Jul 2013, p.12

Energy investors look outside SA for renewable energy opportunities, writes **Evan Pickworth**

Convoluted bid process hinders SA projects

ENERGY investors are looking at opportunities in renewable energy and alternative power generation in the rest of Africa, due to a convoluted local process which has led to numerous delays in project completion.

SA has one of the most expensive bidding processes in the world. The average cost of bidding compliance is about $1.5m-$2m.

The Integrated Resource Plan 2010 is SA's 20-year plan to determine long-term electricity demand and how it should be met. However, delays in getting projects off the ground have proven costly and frustrating.

Projects and energy director and head of Africa at law firm Routledge Modise, Rajen Ranchhoojee, says the layers of complexity, as well as the weak rand, are adding costs to what should be a faster and more streamlined bidding process. "The local bidding process has a lot of regulations involved. Funding is often hard to come by and there is little guarantee that at the end of it bidders will be successful."

He says a 40% depreciation in the rand for those projects that have closed has led to a "massive increase" in project costs, which the government has had to carry. But now in round-three bidding, due to close next month, foreign exchange risks are being capped.

Future uncertainty about the government's surety as guarantor is also "fuelling the fire" for bidders to look at opportunities in Kenya, Uganda, Ghana, Mozambique, Tanzania and other countries for wind and solar projects.

"This makes the odds of them winning a bid far higher and less expensive than it is in SA." It does, however, come with its own risks, Mr Ranchhoojee says.

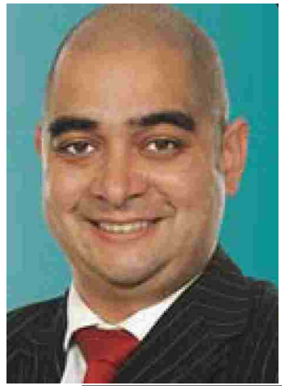
A solution is for the government to streamline the bidding process and give investors more certainty.

But the delay in the coal-fired Medupi power station by at least six months only strengthens the argument for running renewable energy programmes, he says. Despite the challenges, a photovoltaic plant can be set up in just 12 months, for example.

He says the state could "relax regulation a bit more" once the first megawatts of the Integrated Resource Plan come onto the grid. This should increase competition and bring opportunities for smaller developers, who cannot bid at the moment as it is too expensive.

ENERGY INVESTORS LOOK NORTH

- SA has one of most expensive energy bidding processes in the world
- Major delays have pushed out completion dates for projects
- Layers of complexity and regulations add to costs
- Challenge is to reduce overheads and improve efficiencies
- Energy investors looking at opportunities outside SA to avoid red tape
- SA's government needs to streamline the process to retain investors



RAJEN RANCHHOOJEE

Graphic: DOROTHY TSHWAEDI

At least 60% of the projects Mr Ranchhoojee is involved in are held by foreign entities and new requirements call for no less than 45% local content (with a target of 60%) — which pushes costs up.

Portfolio manager Mark van Wyk at Mergence, an asset manager with a R3bn investment pipeline, says there is a need for a specialised fund mechanism to raise money for renewable energy now the first two rounds are over.

While development finance institutions such as the Development Bank of Southern Africa and the Industrial Development Corporation were major funders in the first two rounds, the availability of this funding for future rounds is limited and so, he says, it will be crucial that more private sector money is used in round three. This is especially acute in funding black economic empowerment participation, which is compulsory for project companies to obtain preferred-bidder status.

"In Africa, renewable energy will be a big growth market given the available resource and the ability to circumvent grid connection constraints. Renewable energy is a complementary solution to coal-fired power stations and can facilitate economic development in rural communities — it can be a sustainable model, especially given more competitive pricing in the near future," he says.

Mr van Wyk says raising finance from private sources for socially responsible investing may still only capture less than 1% of investable assets, but it is becoming another crucial channel to mobilise capital into business sectors that need hundreds of billions of investment.

He says the National Development Plan "will have a big impact on infrastructure funding, and will provide opportunities to build debt funds in the infrastructure space that provide investors with competitive returns".

But any government-driven plans will still have to compete for that capital, which looks for the best risk-adjusted returns.

Third-round bidding submissions must be received by August 19 and transactions are set to close by end-July next year.

Mr Ranchhoojee says there should be no reason the process should be delayed.

"One could understand delays between rounds one and two, as it took them time to find their feet, and I don't believe there is a country in the world that could close 27 projects at a certain time. But the market cannot afford another delay. It would be quite surprising if there was another delay," he says.

pickworthe@bdfm.co.za