



Ways for Regulators to facilitate private sector investment

Alastair Campbell

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Director – Head of Power, Project Finance

Corporate and Investment Banking – Standard Bank



- There is mist covering Heathrow Airport!
- Financier's view on the private sector participating in the public sector (using Independent Power Producers "IPP's" to illustrate the point) – what are the stumbling block's or sacred holy cows
- What should we be doing more of – suggestions to the Regulator to ensure that IPP's achieve a timely close
- *The power sector will be used a proxy for all public sectors under regulation*



- There is mist covering Heathrow Airport!
 - No runway? *it is not clear to the developer market which program they should be tendering for*
 - No parking bay? *the amount of MW that we need is not clear*
 - No time slot? *the timing of various processes is far from clear*
 - Which airlines are allowed to land at Heathrow? *Are we interested in cross border IPP's or not and are they subject to the PFMA etc?*
 - No indication of what the landing fees, parking fees etc are? *what are acceptable tariff levels and is Eskom/NERSA comparing like with like?*
- There has been a lot of mist in the last 10 years? *There have been a lot of failed process run in this country – investors are losing faith in the government's ability to follow through*
- There are a lot of planes circling overhead and pretty soon they will either run out fuel or go off in search of an alternative runway? *The world is now a small place and pretty soon alternative investment opportunities will start to look more attractive*

PPAs - the “sacred cows” from a host government perspective?



- The list below summarises those issues that host governments usually find the most difficult to accept. Inevitably these items are extensively negotiated, cause a lot of debate and in some instances, derail a project:
 - Currency availability, convertibility and transferability
 - Why do investors insist upon EUR/USD flows when the host country utility earns the majority of its revenue in local currency?
 - Where there is cross currency risk, why should the utility bear this risk?
 - Why can the project not enter into the relevant hedging arrangements itself?
 - Events of default leading to lump-sum termination payments
 - Why should the host government pay when the seller defaults? The seller is the one at fault and therefore it should pay?
 - Why should the host government pay when there is a force majeure event? Neither the buyer or the seller is responsible

PPAs - the “sacred cows” from a host government perspective?



- Why do investors insist upon there being a sovereign guarantee underpinning PPA’s with the private sector?
 - Is our utility not creditworthy enough?
 - Is an implicit government guarantee from the state (that owns the utility) not sufficient for banks? Why do we need an explicit government guarantee?
- Fuel pass through! Why is the developer insisting on the fuel price risk being passed through to the buyer. DOE – petrol prices vs DME Peaker fuel pass through?
- Cross Border IPP’s – reliance on our neighbours for power - the Reserve margin (15%)?

What should the Regulator be doing more of and how should we take things forward?



This checklist summarises a number of recommendations that utilities might wish to consider when embarking on an IPP strategy

- Create the playing field before you invite the players (identify the runway)
 - The enabling infrastructure must be put in place
 - Appoint advisers to run a process and stick to a pre-agreed timetable
 - Assign personnel to run the process and empower them to make decisions on behalf of the host government's utility
- Take advice on what is a reasonable risk allocation matrix.
 - Ensure that this advice is relevant to the host country in question – and not just a rehash of a solution from another country
- Run processes that are transparent and that will stand up to public scrutiny. This achieves two objectives:
 - It ensures that a fair process is run
 - It keeps the funding options as wide as possible
- The negotiation of a PPA should not take more than 6-9 months
 - Agree the principles up front as it relates to how the government/utility is going to handle the “sacred cows”



THANK YOU

Alastair Campbell

Director, Corporate and Investment Banking

Contact ph: +27 11 636 6416

Contact fax: +27 11 631 0491

Email: Alastair.Campbell@standardbank.co.za



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