

## EXPANSION OF THE SOUTH AFRICA SEAP

### IFC responses to the comments from Trust Fund Committee members

#### Comments from UK

##### Comment Additionality

We note that the revised plan does not contain any updates to the market analysis on self-supply RE since the original 2010 project proposal and does not give any information on the current state of the regulatory environment.

As the first four rounds of REIPPPP have been oversubscribed with significant tariff drops for CSP and PV, and a small-scale government support program is about to be introduced, we need to see how the CTF finance will be targeted to ensure clear additionality and prevent the crowding out of private sector actors. This should include an update on the current regulatory and government support environment for self-supply RE and reasons why the existing DFIs and SA commercial banks are not financing small scale RE based on IFC's updated market analysis.

##### IFC response

- Since the 2013 CIP revision, there have been no significant changes to the regulatory environment for self-supply and small-scale renewables. This year, some classes of projects are expected to benefit from upcoming NERSA regulations for embedded generation facilities that will likely further enhance the regulatory environment for self-supply and net metering. However, CTF support remains essential to address current market limitations that arise from: (a) high perceived risk regarding innovative distributed generation business models not yet operational in South Africa; (b) limited on-the-ground developer capacity, currently mostly focused on REIPPP projects; and (c) financial institutions' exposure limits to renewables that they face due to active participation in REIPPP projects.
- On the large-scale side within the REIPPPP, IFC proposes to use CTF funds to support only CSP projects, due to their still elevated cost vis-à-vis other renewable energy technologies and their strategic potential to displace fossil fuel based power. While CSP tariffs have indeed dropped, projects are still facing limited, high-cost commercial investor interest, particularly those employing advanced CSP technologies and designs. By providing lower cost financing, CTF support can help bringing tariffs closer to levels more comparable to other technologies.
- Finally, allocation of CTF funds to each sub-project under the program will be carefully reviewed by the internal IFC approval mechanism, specifically tailored for assessing additionality (beyond IFC additionality), minimizing market distortions, and contribution to sector sustainability. Only the sub-projects that meet all three criteria will be able to move forward.

##### Comment Results Measurement Frameworks

- Could you please clarify what split is foreseen between CSP and distributed PV installations within the sub-project mix and how the weighted average capacity factor of 55% was derived?
- On page 5 of the Amendment of the CTF Investment Plan and pg. 10 of the PAD it is indicated that the expected GHG emission avoided from the original SEAP is 0.86Mt/year and 17.2Mt overall, based on the installation of 250MW capacity. How does this figure relate to the IFC-SEAP GHG emission savings target of 13Mt, and annual 0.72Mt/y published in the 2014 Results Report?
- The PAD contains no details on how the co-financing figure of USD 700m was estimated for the SEAP expansion. Could IFC please clarify the technology cost assumptions used and the classification of co-investors (private versus DFI finance)?

**IFC response**

- Significant amount of the program funds are expected to be utilized for supporting CSP utility-scale sub-projects, with the remainder going towards solar PV. With a significantly larger scale and larger expected leverage, the CSP sub-project will likely provide a much greater contribution to the results framework numbers. In this light, the program-level result framework numbers are conservatively estimated based on the expected outcomes of the CSP project, with minor adjustments made to reflect other sub-projects under the program. As such, a 55% capacity factor is primarily based on the expected parameters for the CSP technology.
- The original SEAP was a program jointly prepared and implemented by the AfDB and IFC. By now these SEAP funds have been completely utilized towards three CSP sub-projects: one of which was implemented by the AfDB and two by IFC. The referred page 5 of the Amendment to the CIP and page 10 of the program proposal indicate the results framework numbers at the SEAP-level, corresponding to all three sub-projects (250 MW of aggregate capacity). The IFC-SEAP numbers on the 2014 CTF results report, however, correspond to only the two sub-projects implemented by IFC (150 MW of aggregate capacity).
- Co-financing was estimated on the basis of IFC’s current pipeline of sub-projects rather than technology cost assumptions. Currently, we anticipate that for some of the sub-projects, a certain amount can be provided by DFIs with the remainder coming from private sector. The final composition of the sources of financing will be determined during projects structuring and negotiations with the clients on a project-by-project basis. The expected participation of the DFIs in financing the sub-projects indicates that the market is still not commercially mature and self-sufficient.

**Comment** Energy access

There is no mention in the proposal on the programme’s impact on energy access. Even though the programme is aimed at industrial off-takers, one could still expect that there might be an increase in energy access because the additional power generated would make power somewhere else on the grid available – it would be useful to get clarity on whether this is indeed expected to be the case.

**IFC Response**

- Whilst it is expected that the increased generation capacity funded by CTF SEAP will help to improve power reliability for those already connected to the grid, impact can only be expressed in terms of the power output achieved by the new facilities built. Given rapidly growing energy demand, shrinking generation reserve margin, and exacerbating rolling blackouts in the country, improving the quality of the energy supply will be one of the outcomes of the increased generation capacity.