AFRICA GREENCO

Africa Green Regional Energy: Efficient, New and Creditworthy Offtaker

GreenCo – South Africa

Grant Support Provided by:

The Rockefeller Foundation

Convergence – Blending Global Finance

P4G – Partnering for Green Growth and the Global Goals 2030

SADC Project Preparation & Development Facility

Supported by:

Global Water Partnership

RERA – Regional Electricity Regulators Association of Southern Africa

NEPAD – Transforming Africa

APUA ASEA

SAPP

Recommended by the SE4All Finance Committee Report:

Sustainable Energy for All

Legal Advisors:

Norton Rose Fulbright

Corpus Legal Practitioners

Financial Advisors:

Fieldstone Africa

Lion's Head Global Partners

COVID-19 : An unprecedented event in global history

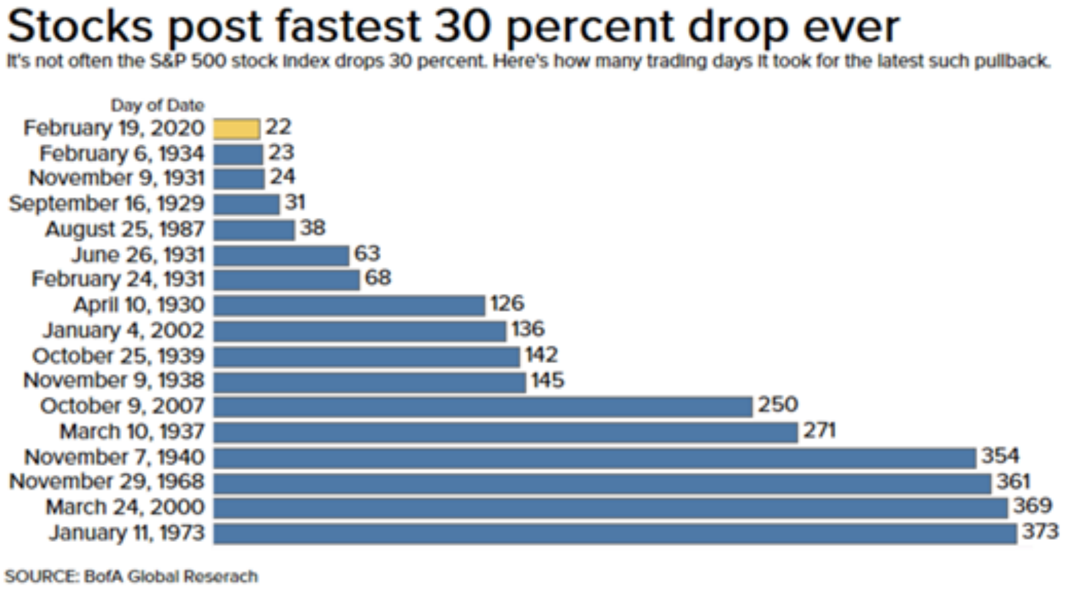
Epidemiology

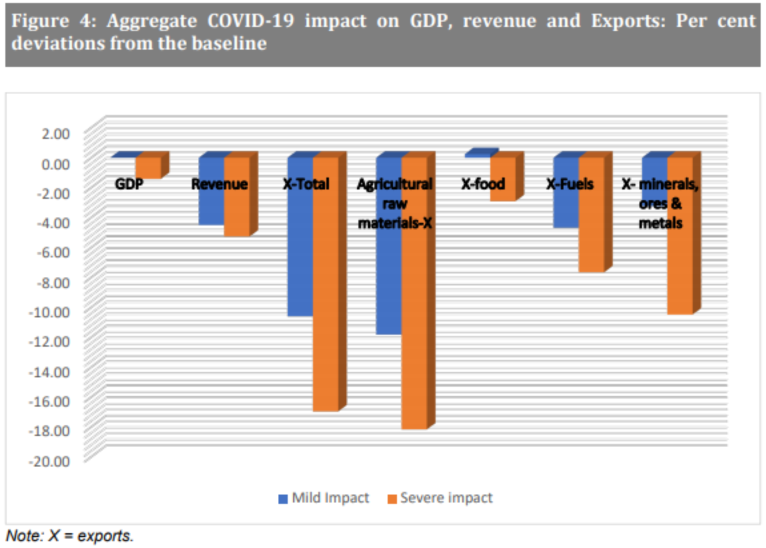
- Nearly 3m deaths in 15 months. Situation in most countries volatile – very few countries have made a sustainable recovery.
- Limited success with drugs; containment measures likely to remain in place until vaccination drive reaches critical mass.

Economics

- Fastest decline in stock prices in history, followed by (in most markets), the fastest recoveries. Record GDP contraction all over the world.
- Demand & supply shock to the whole value chain of the global economy, including to the energy sector
- <u>Best Case</u> would be a quick recovery, starting in H2 2021 after economies start opening up following successful vaccination drives.
- <u>Worst Case</u> would be a long lasting recession of historic dimension (such as in the 1920s)

The IMF expects "a recession at least as bad as during the global financial crisis or worse"





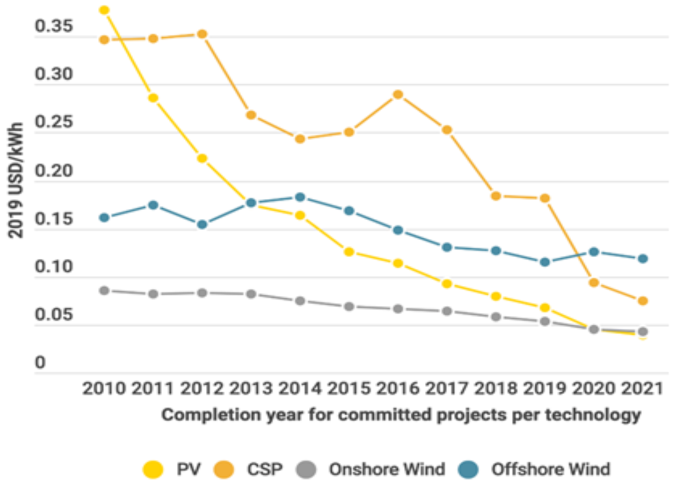
Africa's economy expected to be hit severely. Source: UNCTAD

Renewable Energy : Cheapest Option

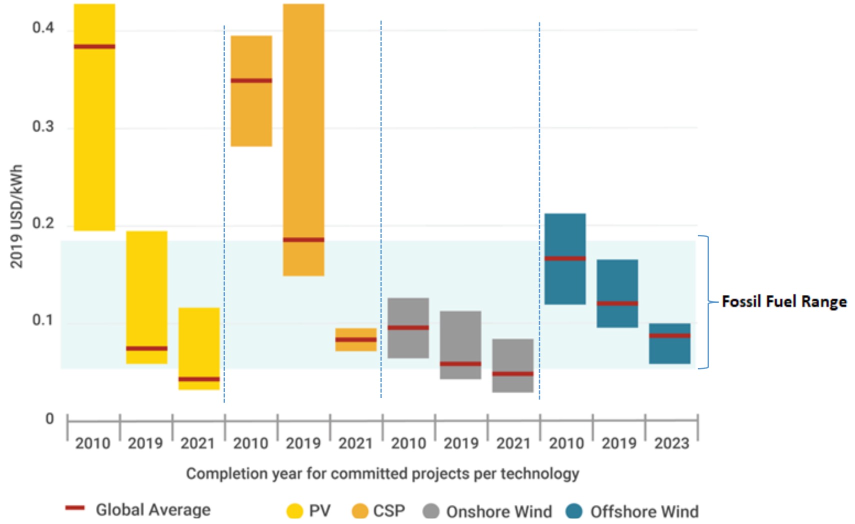
- ✓ RE costs continued their long term downward trend in 2019, and more than half of the RE capacity added in 2019 achieved power costs lower than the cheapest new coal plants.

- ✓ Key drivers of falling costs are:
  - Improved technology & falling capital cost
  - Economies of Scale
  - Growing stakeholder experience and acceptance

- ✓ New solar PV and onshore wind power cost, on average, less than many existing coal plants. Replacing the costliest 500GW of coal power with solar PV could:
  - Result in $23bn of annual savings
  - Reduce annual CO2 emissions by 5% of total global CO2 emissions in 2019 (i.e. ca. 1.8 Gt)
  - Yield an investment stimulus ca. 1% of global GDP (i.e. ca. USD 940 billion)



Prices of Renewable Energy power from 2010- 2020, and extrapolated to 2021



Costs of Renewable Power compared with Fossil Fuels

Source: Irena 'Renewable Power Generation Cost In 2019'.

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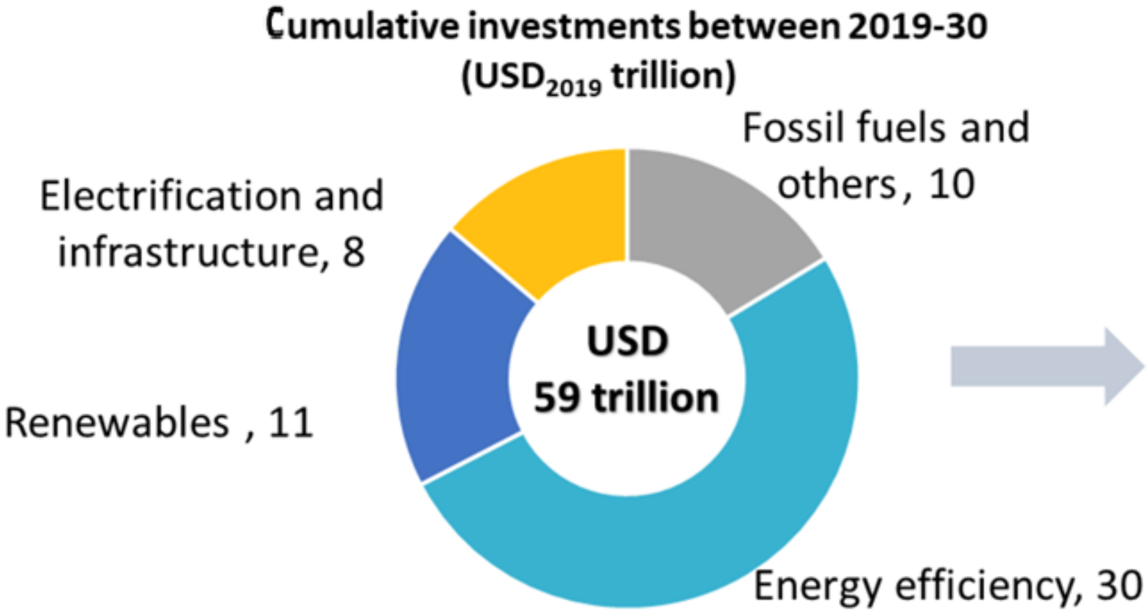
Huge Investment Needs... And Opportunities!

The world's long term energy investment needs are immense, driven by fundamental factors that are resilient to short term impacts like Covid-19.



Energy sector average annual investments 2019-30:

USD 5.4 trillion per year

Clean energy average annual investments, 2019-30:

USD 4.5 trillion per year

CEER Council of European Energy Regulators

IRENA International Renewable Energy Agency

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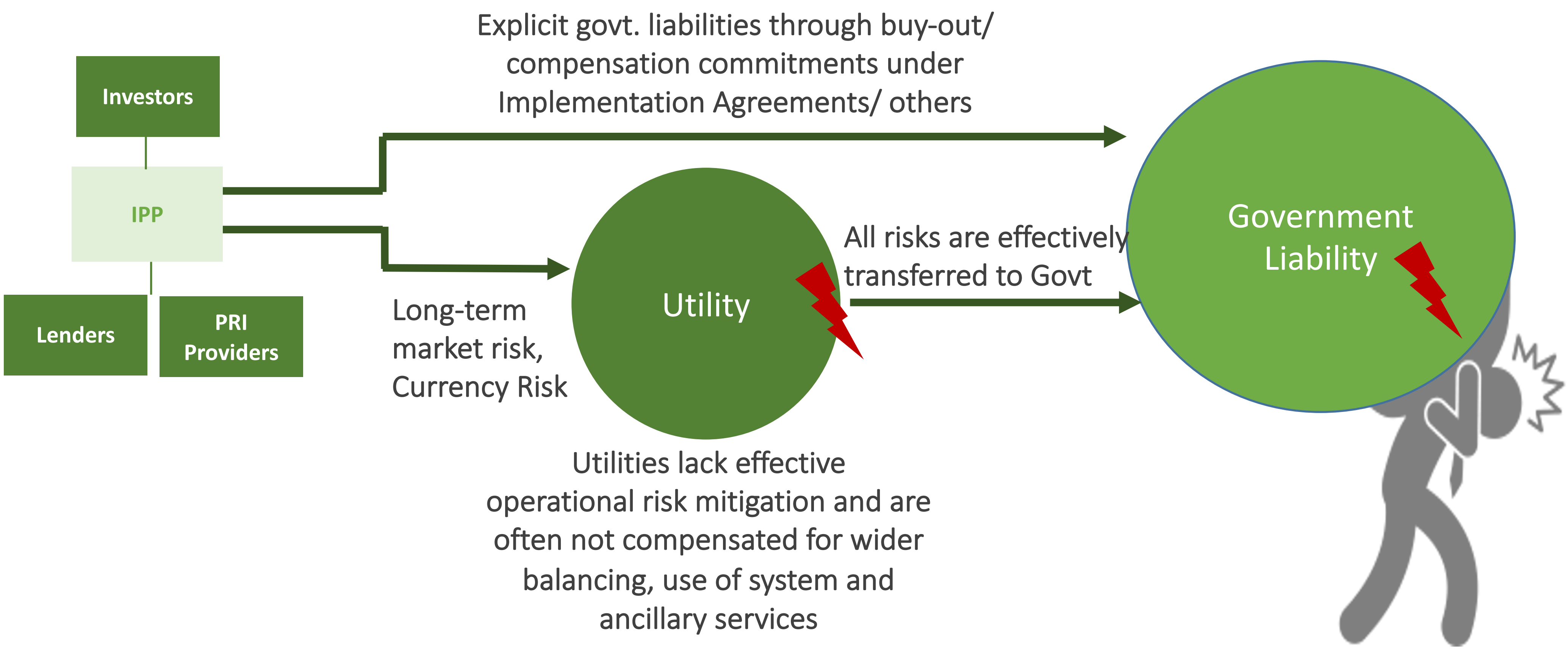
Context : Current IPP Model puts risk/liability to Utility and Government



Context : Current IPP Model's limitations are restricting market development

- Most utilities are not creditworthy
- IPPs require risk cover and payment security instruments (sovereign guarantees, termination capital cover) to make their projects bankable (significant fiscal impact)
  - This increases cost of capital, reduces operational financial flexibility
  - As a result, this results in higher tariffs and is costly to utilities, governments and consumers
  - Utility reform is impeded through long term bilateral fixed contracts

New business models are needed!

Most utilities and regulators have initiated market reforms to enable new electricity players like intermediary offtakers and power traders, and better use electricity markets such as the Southern Africa Power Pool (SAPP) for risk mitigation and leverage.

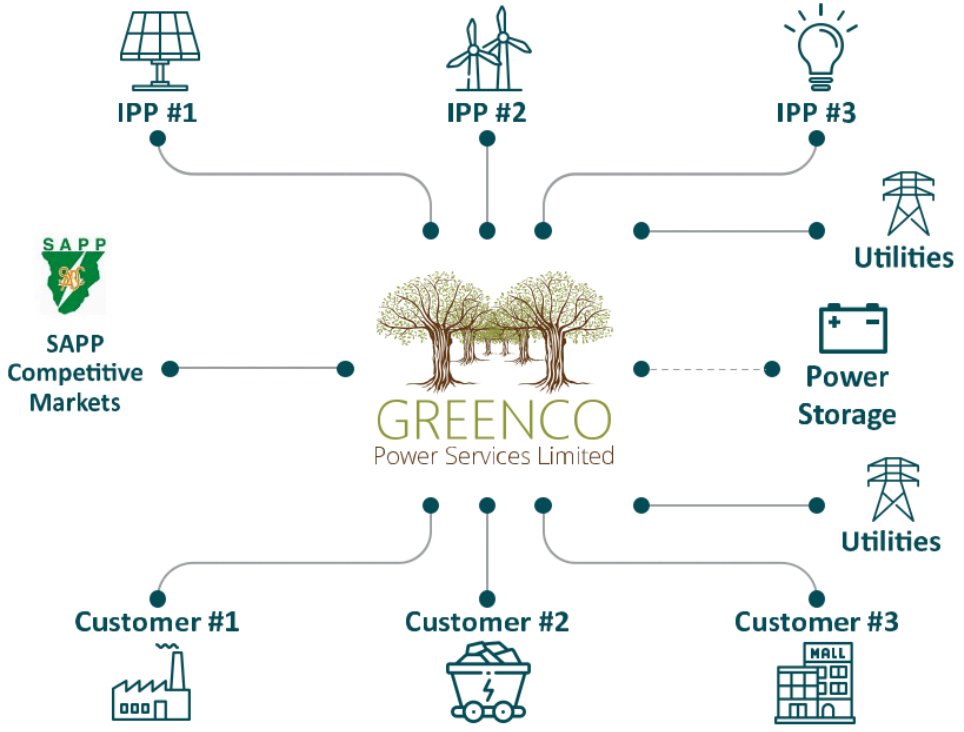
Introducing Africa GreenCo

Introducing Africa GreenCo (GreenCo)

P4G Partnering for Green Growth and the Global Goals 2030 **is supporting a transformational model (GreenCo)**

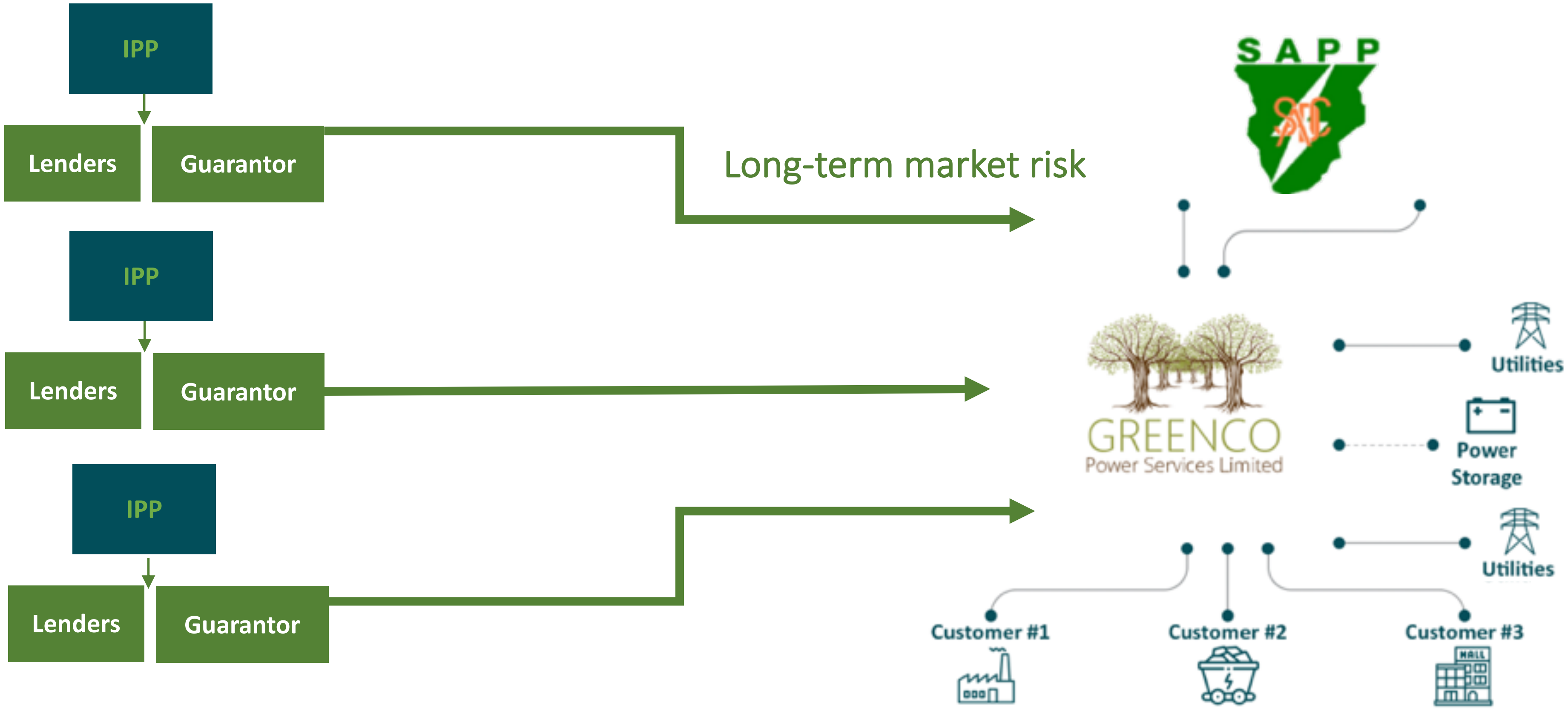
GreenCo is:

- A **creditworthy buyer of renewable energy** - GreenCo buys power from independent power producers (IPPs)
- A reliable and **affordable seller** of renewable energy - GreenCo sells power through long-term contracts to utilities, municipalities and private buyers; it also executes shorter-term trades through the Southern African Power Pool (SAPP)
- A champion of new renewable **energy and trading services**
- An aggregator of risk - strongly capitalised, GreenCo warehouses credit risk of utilities and private buyers, resulting in reduced tariffs
- An **operational aggregator** of renewable energy supply
- A scalable business that will cover the **entire SADC market**



GreenCo combines a strong balance sheet (backed by international DFI investors) and operational risk mitigations (strong team; SAPP risk diversification) to allow bankable PPAs and reliable power supply.

GreenCo– uses the market to mitigate long-term price and demand risk



Power pools provide an alternative route to market which will break the sovereign ceiling and the requirement for the Government's fiscal to back power purchase obligations.

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VISION STATEMENT

To lead innovation and sustainably transform renewable energy markets in Africa

ACTIVE IN

Zambia and Namibia

South Africa in Q3/4 2021

GreenCo in South Africa

South African Energy Transition

- **South African energy transition is under way and some highlights include:**

  - ✓ **A widespread recognition that the single buyer model is no longer sustainable:**
  - ✓ **Estimates for additional capacity range from 3,000MW (Eskom) to 7000MW (Council for Scientific and Industrial Research). This capacity is yet to be procured**
  - ✓ NERSA is already questioning the viability of all new procurement being developed via a single buyer model
  - ✓ A recent recognition that municipal procurement of IPPs is critical to energy-led economic recovery
  - ✓ Regulatory allowances and support for embedded generation
  - ✓ Increasing focus on electricity wheeling options and use of system options
  - ✓ **SA’s constrained fiscal situation, especially after COVID 19, means exploring innovative and collaborative new business models is important to achieve its targets.**

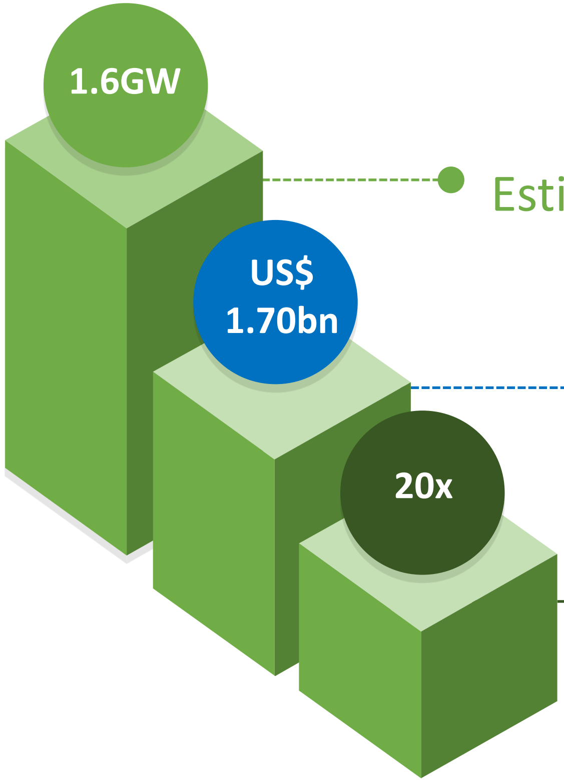
SA Energy transition will create opportunities

➢ **Reforms will create many opportunities for all stakeholders:**

Consumers / Embedded Generation	✓ Diversifying power purchases, leading to lower costs and greater stability of supply ✓ Ability to increase share of renewable energy in supply mix
Generators	✓ Diversify consumer base to increase payment certainty and potentially also increase revenues
Eskom	✓ Unbundled operations will improve financial health and system efficiencies, leading to improved ability to achieve desired outcomes
Municipalities	✓ Procure their own power without payment guarantees to IPPs by the South African National Treasury, by using intermediary offtakers like GreenCo. ✓ Additional benefits of using intermediaries include overcoming restrictions on municipalities earning power trading revenues on commercial basis, and avoiding the need for developing in-house skills and capacity to project manage and oversee the delivery of power directly from IPPs.
New Players	✓ Creditworthy intermediary offtakers such as GreenCo can procure power from multiple IPPs and sell to municipalities and other large consumers, and in the process accelerate the development of the market

GreenCo SADC Portfolio and Impacts

$2.5 Billion leveraged for new RE projects by 2030, aggressive Pipeline (1.6 GW) across Southern Africa



Estimated 10-year pipeline

Commercial investment

Donor leverage

Impact Potential – Systemic Change

1. **Accelerate affordable clean energy development** to directly address SDG 7 and SDG 17 (and indirectly address other SDGs) and help countries achieve their Nationally Determined Contributions.
2. **Reduce the cost of renewable energy** by reducing credit risk and accelerating transactions.
3. **Create a more favorable investment environment** to unlock existing and attract new sources of finance to the renewable energy sector, including local institutional funders.
4. **Catalyse regulatory reform** and a shift towards a liquid market-based electricity sector.
5. **Stimulate regional electricity market development** to achieve lowest cost generation for all.
6. **Support national utilities** in their transition to creditworthiness by closing the gap to cost reflective tariffs, releasing resources for other priorities and compensating them for their services.
7. **Aggregate small-scale renewables** and facilitate efficient use and integration of renewable energy onto the grid on a regional basis.
8. **Increase transparency** that will support decision making related to new renewable generating capacity across Africa.
9. **Shift the onus away from African governments backstopping the payment obligations** of their national utilities towards using the market to mitigate risk.
10. **Act as a pathfinder** for other electricity service providers, helping make the market more liquid and competitive.

Investors & Supporters

InfraCo Africa is part of the Private Infrastructure Development Group (**PIDG**): it is managed as a private company although funded by governments in the UK (FCDO), the Netherlands (DGIS) and Switzerland (SECO).

Investeringsfonden for Udviklingslande (IFU): IFU is an independent Danish government-owned fund offering advisory services and risk capital to companies wishing to do business in developing countries and emerging markets. IFU makes risk capital available in the form of equity, loans or guarantees for project companies in one of the 146 countries eligible for IFU investment.

Current Grant Providers, potential investors and supporters: