

# PROJECTS AND INFRASTRUCTURE ALERT

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### LIQUEFIED NATURAL GAS TO POWER INDEPENDENT POWER PRODUCER PROCUREMENT PROGRAMME – WHAT YOU NEED TO KNOW

On 4 October 2016, the South African Department of Energy (DoE) released the long awaited Preliminary Information Memorandum (PIM) for the Liquefied Natural Gas (LNG) to Power Independent Power Producer Procurement Programme (LNG-to-Power IPP Procurement Programme). The PIM provides insight into the LNG-to-Power IPP Procurement Programme and allows interested parties to consider the opportunities that it presents.

# LIQUEFIED NATURAL GAS TO POWER INDEPENDENT POWER PRODUCER PROCUREMENT PROGRAMME – WHAT YOU NEED TO KNOW

*The DoE is procuring the LNG-to-Power IPP Procurement Programme. This procurement is pursuant to two determinations for 3,726MW of new IPP gas fired generation capacity from a variety of gas sources.*

*The DoE has indicated that it plans to procure 3,000MW of the available 3,726MW by way of the LNG-to-Power IPP Procurement Programme.*



On 4 October 2016, the South African Department of Energy (DoE) released the long awaited Preliminary Information Memorandum (PIM) for the Liquefied Natural Gas (LNG) to Power Independent Power Producer Procurement Programme (LNG-to-Power IPP Procurement Programme). The PIM provides insight into the LNG-to-Power IPP Procurement Programme and allows interested parties to consider the opportunities that it presents.

The DoE is procuring the LNG-to-Power IPP Procurement Programme. This procurement is pursuant to two determinations (on 18 August 2015 and 22 March 2016) in terms of s34 of the Electricity Regulation Act, No 4 of 2006, which provides for 3,726MW of new IPP gas fired generation capacity from a variety of gas sources. Eskom Holdings SOC Limited is the designated buyer of energy generated by the gas-to-power generation plants pursuant to a power purchase agreement.

The DoE has indicated that it plans to procure 3,000MW of the available 3,726MW by way of the LNG-to-Power IPP Procurement Programme. The DoE has allocated the remaining 726MW to separate procurement programmes, which will comprise: (a) 126MW allocated to the Domestic Gas-to-Power Programme; and (b) 600MW allocated to the appointment of a strategic partner for a gas-fired power generation facility.

#### Procurement Process

The formal procurement process for the LNG-to-Power IPP Procurement Programme is intended to take place in two stages:

- Stage One: Request for Qualification (RFQ)

Interested parties will be invited to qualify for the programme by satisfying key financial and technical

criteria to develop, finance, construct and operate a proposed project at a specified port pursuant to a RFQ for that port. The projects at each identified port will each be linked to a separate RFQ. A shortlist of pre-qualified bidders for all projects will be determined. Only pre-qualified bidders will be eligible to respond to Stage 2 (Request for Proposal).

- Stage Two: Request for Proposal (RFP)

Pre-qualified bidders will be invited to submit binding proposals to develop, construct, finance and operate the proposed project at a specified port pursuant to a RFP. The projects at each designated port will be procured via a separate and specific RFP for such port. The following agreements will be issued as part of the RFP suite of documentation:

- Implementation Agreement
- Power Purchase Agreement
- Transmission Agreement
- Ancillary Services Agreement
- Port Concession Agreement
- Direct Agreements.

The PIM envisages that the pre-qualified bidders will have an opportunity to comment on and engage with the DoE in respect

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of each RFP and the commercial arrangements contemplated for the LNG-to-Power IPP Procurement Programme. Subsequent to such an engagement with the pre-qualified bidders, the DoE will issue a second and final version of the RFP, which final version to be used to solicit the formal bid responses from the pre-qualified bidder for a project at each Port.

Access to the RFQ and the suit of RFP documentation requires the payment of registration and access fees as prescribed in the PIM.

## The PIM - What you need to know at a glance

- Each project will be developed on an integrated basis under the responsibility of a single special purpose vehicle (and potentially its wholly owned subsidiaries) which will bear the full development risk. The successful bidder will be required to manage the risks within each element of the gas supply and power generation chain and the interfaces between them.
- It is the responsibility of the pre-qualified bidder to ensure that it proposes a technical solution and demonstrates an implementation capability to meet the performance obligations that will be prescribed.
- The "integrated" approach assumes that the gas to power chain will be supported through a power purchase agreement with Eskom Holdings SOC Limited and by an implementation agreement between the DoE and the IPP. The term of the power purchase agreement will be 20 years from the scheduled commercial operation date.
- The first phase of the LNG-to-Power IPP Procurement Programme will focus on Richards Bay in the KwaZulu-Natal Province and Ngqura (Coega) in the Eastern Cape Province (Ports) as both of these Ports have existing transmission grid infrastructure that enables the evacuation of generated energy. Saldanha Bay has been excluded from the first phase and it is anticipated that Saldanha Bay will only be developed in the second phase of the LNG-to-Power IPP Procurement Programme as substantial work is required to the port, grid infrastructure, servitudes for the pipeline, transmission lines and the location for the power plant.
- The DoE envisages that there will be a specified MW allocation for each Port which will be set out by the DoE in the Request for Proposals to be issued by the DoE in respect of each Port.
- The DoE expects to make available, through the Transnet National Ports Authority, a site for the construction of the LNG-receiving facilities (within each of the Ports limits) and power plant facilities (proximate to the Ports). A potential site for the power generation facility, location of the FSRU (or equivalent technology) and associated servitudes for gas to power lines have been identified at each Port. Bidders are, however, at liberty to propose their own power generation facility sites. The PIM provides background information in respect of the sites to interested parties.
- The successful bidders will take all site risk, including obtaining necessary permits and consents.

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*Fuel costs will be passed through to the consumer via the power purchase agreement with Eskom, and the DoE will, in consultation with the NERSA, provide a mechanism for gas regulation, which, among other things, reduces foreign currency exposure while ensuring bankability of the projects.*



- The bidders are required to propose a technical solution of a gas-fired power plant using combinations of combined cycle gas turbines and open cycle gas turbines or engine technologies to provide flexible dispatch regime (fuelled by regasified LNG) for a range between 1 – 3GW.
- Fuel costs will be passed through to the consumer via the power purchase agreement with Eskom, and the DoE will, in consultation with the NERSA, provide a mechanism for gas regulation, which, among other things, reduces foreign currency exposure while ensuring bankability of the projects.
- The power purchase agreement's tariffs will be rand, (ZAR)-based
- The successful bidders responsibilities are expected to include the following:
  - LNG procurement and delivery;
  - providing LNG storage and regasification facilities (using Floating Storage and Regasification Unit (FSRU) technology or equivalent facilities such as Floating Storage Units plus shore-based or barge-based regasification facilities);
  - the supporting port infrastructure including fixed maritime structures and dredging of the berthing pocket for the FSRU (or equivalent LNG regasification and storage technology);
  - the necessary gas transmission pipelines to connect with the new power generation facility;
  - provision of a gas distribution hub for third parties to distribute gas by pipeline;
  - provision of a gas distribution hub for handling LNG that may then be distributed by a third party (by road or rail);
  - alternative fuel storage facilities, including the option for alternative back up fuel supplies, to mitigate the impact of unplanned interruptions to the LNG supply chain;
  - the new power generation facilities;
  - the necessary power transmission line to the point of electricity delivery; and
  - the arrangements for the potential sale of a modest percentage of gas from the volumes that it contracts pursuant to its LNG sale and purchase agreement to potential third party gas users.
- The PIM also anticipates that the use of large scale FSRUs (or equivalent LNG regasification and storage technologies) will result in such facilities exceeding the capacity that is necessary to meet the requirements of the successful bidders gas fired power generation plant. Successful bidders will be required to provide for mandatory third party access to the extra capacity of the gas infrastructure. The successful bidder will be required to enter into a terminal use agreement, gas transportation agreement and multi-user terminal agreement with any third party user.

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*Pre-qualified bidders will be required to have a South African entity participation of at least 35%, inclusive of the set aside equity for SOCs but exclusive of the broad based share ownership scheme.*



- The successful bidders will be required to comply with mandatory socio-economic objectives for the LNG-to-Power IPP Procurement Programme which will be detailed in the RFQ for each Port.
- Key equity participants in a bidder are expected to include:
  - Power plant developer (with capability in the development and operation of a gas-fired power facility);
  - LNG supplier; and
  - Terminal operator (with capacity in the development and operation of an FSRU (or equivalent technology).
- The terms and conditions of any state owned company (SOC) participation in a project will be clarified in the RFQ and RFP. A SOC will not participate at the bid stage. For the purpose of the RFQ responses, bidders will be required to indicate their willingness to set aside a prescribed percentage for one or more SOCs (in addition to equity set aside for the broad based share ownership scheme). Pre-qualified bidders will be required to comply with such equity commitments.
- Pre-qualified bidders will be required to have a South African entity participation of at least 35%, inclusive of the set aside equity for SOCs but exclusive of the broad based share ownership scheme.
- The minimum shareholder participation requirements for the broad based share ownership scheme will be detailed at the RFP stage.

The PIM sets out the following anticipated milestone dates for the LNG-to-Power IPP Procurement Programme:

Milestones	Anticipated Dates
Issue of RFQ	November 2016
Response submission date	February 2017
Announcement of Pre-qualified Bidders	April 2017
Issue of the RFP	April 2017
Engagement process between Pre-qualified Bidders and the DoE	May 2017
Release of final RFP	August 2017

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