

SMALL IPP PROGRAMME OPENS THE INDUSTRY TO SMEs

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One more goal of the REIPPP programme was the promotion of small businesses in the energy mix. The “small IPP” programme, as it has been dubbed, is for plants to produce 5MW or less with renewable technology. The IPP Office says it is aimed at giving South African power generation equipment manufacturers, who may not have international certification, the opportunity to supply equipment for the projects.

“During the process we realised that the domestic South African manufacturing part was not growing, although it was always a requirement,” says Karén Breytenbach, head of the IPP Office. “In bid window 2 we started with space for small producers to make it easier for them to participate,

but we weren’t that successful. It was difficult for them to pay for the lawyers and other experts they needed to construct a bid.” So a special “small IPPs” bid window was conceptualised with lighter bid requirements and special funding arrangements. That has been conducted and 10 projects selected, but the financial close of the winning projects has been delayed.

One private sector response to the challenge facing small operators was developed by Mergence Investment Managers. “It’s a very good initiative that runs parallel to the main process, says Mergence senior investment analyst Peta Chennells. “The logic behind it is to create jobs. We want it to be supportive of and friendly to SMEs. The concept opens the industry to SMEs whereas previously

they were unable to compete.”

Typically in an RE project, she says, about 75MW is produced, with the big ones producing 140MW. For smaller projects limited to 5MW, problems arise with project finance. “The costs are similar for a small 5MW project, so it’s very tricky to get that right. You can do this profitably if you’re clever about it.”

Mergence negotiated with suppliers to get capped mandates spread across the portfolio for economies of scale. “We negotiated bulk deals, treating them as joint rather than individual entities,” she says. “But it’s the same amount of work as the large projects so it does make things difficult.

“We had a good idea of the quality of the projects so we were comfortable with them. Not just

the costs but the due diligence is the same as for the large projects. We negotiated agreements after conducting very intensive due diligence.”

The delay in securing financial close is hurting the businesses involved. Chennells says that for Eskom a 5MW project “isn’t a big thing”, while the benefits for SMEs are massive. “The problem is SMEs don’t have big balance sheets so the delay is hurting them.

“We’re engaging with the Department of Energy, they have been proactive in responding. I am definitely confident that financial close will be achieved.”

“It’s nice to be part of something new in SA and I’m really looking forward to see how and where it goes from here.” ■