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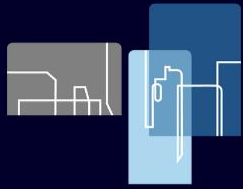
11TH ANNUAL CONFERENCE • 8 & 9 MAY 2024

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**WCPDF**

WESTERN CAPE PROPERTY  
DEVELOPMENT FORUM

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**ANTON  
GROENEWALD**

# Midvaal Local Municipality



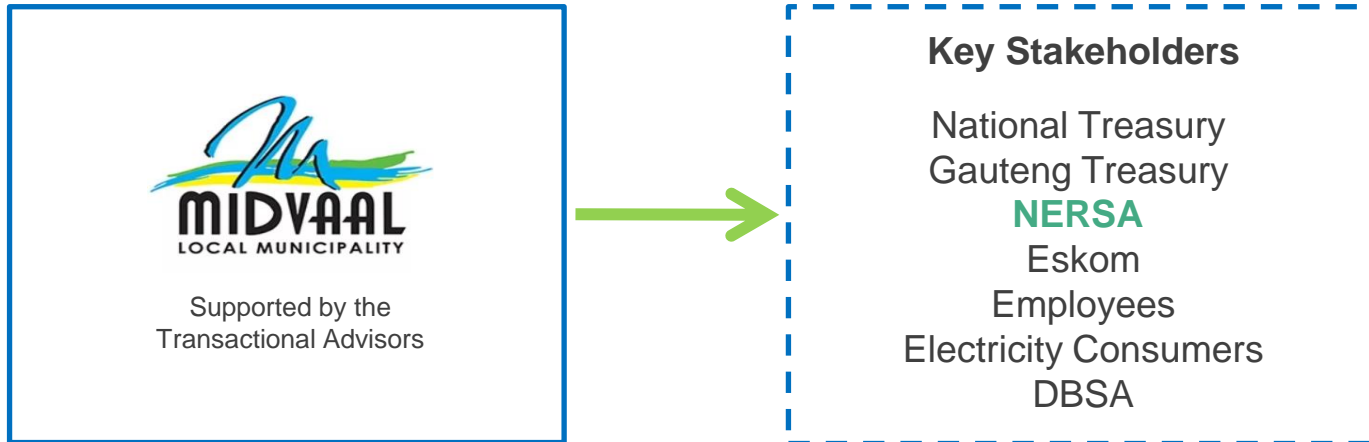
## PPP for the MLM Electrical Distribution Services

WESTERN CAPE PROPERTY DEVELOPERS FORUM  
MAY 2024

# Agenda



1. Introduction of the PPP project	
2. Setting the Scene	
3. Project Background	
4. Key Features of the PPP Concession	
5. Discussion Points	





- **Update** - The MLM Electricity Distribution PPP is continuing.
- **Approvals** - The PPP has full Council support as well as National Treasury Approvals and is funded.
- **Continuity of previous Engagement** – This engagement seeks to pick up where the previous MLM - NERSA engagement left off.
- **Recap of PPP Purpose and Objectives** – The MLM Electricity Distribution PPP envisages the granting of a 20-year PPP electricity concession for the financing, design, management, operation and maintenance of the **MLM Electricity Distribution Network** and the associated provision of **Electricity Distribution Services to electricity consumers within the existing MLM area of supply.**



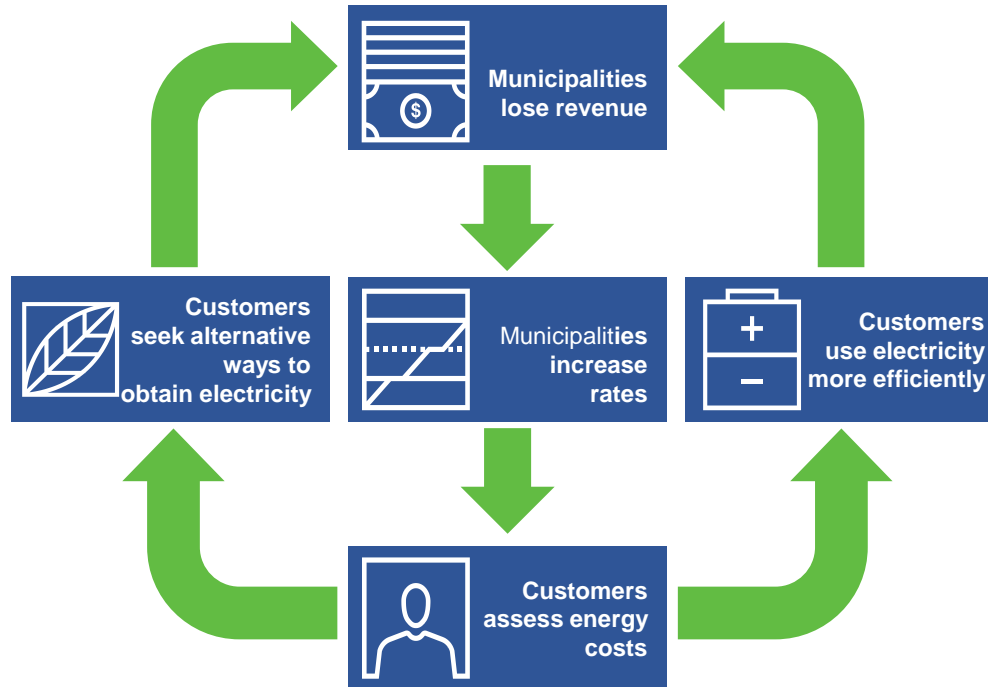
*Sustained load shedding leading to Grid Deflection and Revenue Reduction - Increased tariffs not the solution to current challenges facing electricity utilities*

### External Drivers include:

- Load shedding and tariff increases are leading to reduced energy (kWh) consumption despite demand (MVA)
- Revenue growth has been driven mainly by escalating tariffs – this is unsustainable
- Reducing sales with debtor aging and impairments
- Double digit cost escalation
- Low economic growth
- Reduction in renewable energy and storage pricing driving competitive market
- Shift in customer mix
- Technology disruption providing choice



*Sustained load shedding leading to Grid Deflection and Revenue Reduction - Increased tariffs not the solution to current challenges facing electricity utilities*





# 3 Project Background – Brief Summary



- › MLM is in the process of procuring the MLM Electricity Distribution PPP for the award of a 20-year PPP electricity concession through a two-part competitive procurement process (RFQ and RFP) in accordance with Municipal and Electricity laws.
- › The Transaction Advisors are currently updating certain aspects of the feasibility study and the procurement documentation to re-affirm the affordability, risk transfer, VfM and bankability of the proposed PPP approach.





- › Maintain the existing net electricity revenue of MLM.
- › Shift capital funding risk, revenue risk and technology risk to the Concessionaire.
- › Allow for benefits of Concessionaire efficiency and effectiveness in electricity service provision.
- › Improving continuity of supply inter alia through broader bulk purchase options (in order reduce the impact of load shedding).
- › Pursuing the best possible value for money proposition for customers.





- › The PPP has been registered as a municipal PPP with National Treasury.
- › An assessment in terms of sections 78(1) was undertaken and the necessary decision was taken in terms of sections 78(2) of the MSA.
- › An assessment together with the associated feasibility study and stakeholder consultations were undertaken in terms of section 78(3) of the MSA.
- › The required feasibility study in terms of section 120(4) of the MFMA and the related consultation processes were undertaken.





- › The views and comments of the Provincial Treasury, DMRE and COGTA were obtained.
- › The TVR I approval obtained from National Treasury.
- › The TVR IIA approval obtained from National Treasury.
- › MLM Municipal Council approval obtained.
- › **MLM Municipal Council approval to proceed with procurement of the PPP Concession has been obtained.**

*Revitalising  
Municipal  
Electricity  
Distribution*





The MLM Electricity Distribution PPP envisages the following:

- **Going Concern** – MLM grants the Concessionaire a concession to it assumes control, possession, use and enjoyment of MLM's existing electricity distribution undertaking as a going concern (incorporates a 197 transfer as well as a transfer of existing liabilities, rights and obligations). ( R 550m turnover) (R 1,2bn asset)
- **Ringfenced SPV** – The Concessionaire to take the form of a ringfenced special purpose company whose sole purpose is to implement the PPP Concession.
- **Licensing** - Concessionaire to be licenced by NERSA as an electricity distributor within the MLM municipal area excluding the Eskom supplied areas.
- **Stand Alone** – Concessionaire will employ its own systems and processes and will establish its own call centre and will not rely on any shared services, assets or other resources of MLM.
- **Ancillary business activities** - Concessionaire may only engage in ancillary business activities that are associated with and complimentary to its electricity distribution services and that are approved by MLM.

## 4 Key features of the PPP Concession



- **Asset ownership** – MLM will retain ownership of all Existing Assets, Replacement Assets and Additional Assets – as such these assets may not be disposed of or encumbered by the Concessionaire.
- **Capital Funding** - Concessionaire is required to finance all Replacement Assets and Additional Assets.
- **Grant Funding** – where grant funding is required to fund non-commercially viable capital projects MLM will bear the responsibility to source same.
- **Concession Fee** - Concessionaire is required to pay MLM a Concession Fee which incorporates a fixed portion and a variable portion. The variable portion wins the Bid.
- **Electricity Purchases and Sales** - Concessionaire will purchase electricity (from ESKOM and other suppliers which may include IPPs, traders and SSEG) and will sell electricity to electricity consumers within the Concession Area, for its own account. (Revenue split on alternate energy to be embedded with a back to back MLM Agreement)
- **Revenue Risk** - Concessionaire is required to assume full revenue risk.

## 4 Key features of the PPP Concession



- **Operating, Maintenance and Technology Risk** – Concessionaire is required to assume full operating, maintenance and technology risk.
- **Tariff Approvals** - In accordance with the ERA and the MSA. In addition the PPP Agreement envisages the Concessionaire adopting a cost-of-supply tariff methodology after an initial settling down period.
- **Electricity Regulation** – Concessionaire will undertake the PPP Concession in accordance with the ERA, NERSA license conditions and applicable MLM by-laws.
- **KPI's, Performance Monitoring and Contract Management** – PPP Agreement incorporates a number of KPI's and reporting obligations and MLM will establish CMU to ensure performance monitoring as well as contract management and enforcement.
- **Termination and Step-in Rights** – PPP Agreement incorporates typical PPP termination regime and provides for MLM to take security over all issued shares of the Concessionaire (shares may not be encumbered or disposed of without MLM approval). Upon termination it is envisaged that MLM will acquire shares in order to avoid risk of electricity supply interruptions.

## 4 Key features of the PPP Concession



- **Additional Matters for inclusion**
- To improve viability where some of the underlying assets are loan funded such loans will remain with MLM and will form part of the fixed payment and/or variable payment so as not to load the Concessionaire
- MLM and/or the concessionaire will do a call for proposals for alternate energy supply with the view to selecting at least 2 or 3 IPPS with back to back 20 year IPP single purchaser agreements to stabilise the grid
- We are not likely to allow wheeling agreements across our network. We will also not likely allow single buyer and single seller arrangements as it affects the viability of the MLM
- Reductions in tariffs from the IPPS will be given back as a percentage reduction on electricity bills for households and businesses.
- This is a lengthy and complex process. Transaction advisers and teams are costly. There is no grant funding
- The future sustainability of local municipalities is at stake. Currently for financially stable municipalities sales of Electricity is still at least 25% to 35% of total revenue



Thank you

