



# INDEPENDENT POWER PRODUCER PROCUREMENT PROGRAMMES

JUNE 2020

## EVALUATION OF SELLER REFINANCING NOTICES

REFINANCING PROTOCOL  
/ GUIDELINE



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## **1. Introduction**

- 1.1. The Department of Energy issued the Refinancing Protocol dated June 2020 (“the Protocol”).
- 1.2. The Department Issued Guidance Note 1 dated 23 July 2020 (“Guidance Note One”); Guidance Note 2 dated 19 August 2020 (“Guidance Two”) Guidance Note 3 (“Guidance Three”) dated 16 September 2020 and Guidance Note 4 (“Guidance Four”) dated 26 November 2020
- 1.3. Unless otherwise expressly stated, or the context otherwise requires, words and expressions defined in the Protocol and the Guidance Notes shall bear the same meanings in this Guidance Note.

## **2. Purpose of the Guidance Note**

- 2.1. The purpose of this Guidance Note is to provide guidance on the treatment of movements in interest rates and other applicable financing terms between the date of submission of the applicable Refinancing proposal (“Submission Date”) and the date Financial Close is achieved (“FC Date”).
- 2.2. The Seller shall include the information prepared in accordance with this Guidance Note 5 in its initial application to NERSA with the request that NERSA approve the applicable revision in Tariff, taking account of the proposed Refinancing, provided that any reduction to the Refinancing Gain accruing to the Department as a result of movements in interest rates and other applicable financing terms between the Submission Date and the FC Date does not exceed 20% of the reduction in the Tariff as proposed at Submission Date (“Tolerable Threshold”).

## **3. Information to be provided as part of the Refinancing Proposal**

- 3.1. As part of its Refinancing proposal, the Seller shall provide tables in the form indicated in Table 1 and Table 2 below and showing the impact on the post-Refinancing Tariff of changes of +/- 5, 10, 25 and 50 bps in the key financing terms as defined in the term sheets and related documentation provided by the financial institutions supporting the proposed Refinancing.

**Table 1: R/MWh change in Tariff reduction due to changes in key financing terms**

	Change in margin/costs	+5 bps	+10 bps	+25 bps	+50 bps	-5 bps	-10 bps	-25 bps	-50 bps
<b>(a)</b>	JIBAR								
<b>(b)</b>	CPI (CPI debt)								
<b>(c)</b>	Swap Rate								
<b>(d)</b>	Swap Termination costs/benefits								

**Table 2: Percentage change in Tariff reduction due to changes in key financing terms**

	Change in margin/costs	+5 bps	+10 bps	+25 bps	+50 bps	-5 bps	-10 bps	-25 bps	-50 bps
<b>(a)</b>	JIBAR								
<b>(b)</b>	CPI (CPI debt)								
<b>(c)</b>	Swap Rate								
<b>(d)</b>	Swap Termination costs/benefits								

32 These terms may include, depending on the nature of the proposed facilities;

- JIBAR<sup>1</sup>;
- CPI;

<sup>1</sup> For the purposes of the Tables requested it should be assumed that the basis point change would occur across the entire JIBAR curve. For example, a 5bps change in every period. At Financial Close, the JIBAR curve applicable at that point in time should be incorporated in the revised post Refinancing Model.

- Fixed and/or variable swap rates; and
  - Swap termination costs/benefits;
33. The specific terms to be included in the table to be prepared by the Seller shall be agreed with the Department prior to submission of the applicable Refinancing proposal (the “Adjustable Terms”).
34. The Seller shall confirm that no allowance shall be made at Financial Close for any changes in funding terms other than the Adjustable Terms. For the avoidance of doubt, no allowance shall be made for any changes to the costs to be incurred by the applicable financial institutions.
35. Should the changes in the Adjustable Terms between the Submission Date and the FC Date be associated with a change in the debt hedging profile compared to that shown in the post Refinancing Model provided at Submission Date, such change in the associated debt hedging profile shall be permitted provided that the reduction in the Refinancing Gain accruing to the Department as a result of movements in the Adjustable Terms does not exceed the Tolerable Threshold.
36. Should the changes in the Adjustable Terms and the related debt hedging profile between the Submission Date and the FC Date result in an increase in the Refinancing Gain accruing to the Department, such increase shall be reflected in the post-Refinancing Tariff.
37. The Financial Model audit opinion letter shall include a confirmation that the impacts on the post-Refinancing Tariff as shown in the applicable tables prepared in the form shown in Table 1 and Table 2 above have been correctly calculated.

#### **4. Process at Financial Close**

- 4.1. On the FC Date the Seller shall provide;
- A revised post-Refinancing Model updated to reflect movements in Adjustable Terms between the Submission Date and the FC Date;
  - A table signed by the person whom submitted the submission setting out all changes arising from movements in the Adjustable Terms between the Submission Date and the FC Date together with the aggregate impact on the post-Refinancing Tariff arising from such changes; and

- Term sheets and related documentation (e.g. Bloomberg print screens) from the applicable financial institutions confirming the final interest rates and other applicable financing terms.
42. Provided that the adjustment to the Tariff reduction required as a result of movements in the Adjustable Terms between the Submission Date and the FC Date does not exceed the Tolerable Threshold, the Seller shall be permitted to execute Financial Close.
43. In the event that the adjustment to the Tariff reduction required as a result of movements in the Adjustable Terms between the Submission Date and the FC Date exceeds the Tolerable Threshold, the Seller shall be required to seek a further approval from NERSA in respect of the required adjustment.
44. The Seller shall be allowed to propose an increase in the share of the Refinancing Gain accruing to the Department in order to ensure that the adjustment to the Tariff reduction required as a result of movements in the Adjustable Terms between the Submission Date and the FC Date does not exceed the Tolerable Threshold.
45. It is a requirement from the IPPO that Financial Close shall be within 21 (seven) days from the date of receiving all the required approvals.

**5. Schedule of Guidance Notes**

<b>Guidance Note Number</b>	<b>Date</b>	<b>Details of Guidance Notes</b>
1	23 July 2020	The purpose of Guidance Note 1 is to (i) provide guidance on the CPI indexation rate applicable to Refinancings; (ii) provide for inclusion of Letters of Credit introduced in substitution of reserve accounts; (iii) deal with the utilisation of the Base Case IRR as contained in the Financial

		Close Model and the exceptions thereto; and (iv) deal with the deletion of Clause 4.1.2(a)(ii).
2	02 September 2020	The purpose of Guidance Note 2 is to provide (i) further guidance to IPPs in respect of suggested scope of work to be included in the model audit letter by IPPs that have entered into secondary transactions through the insertion of a new Clause 5.3; (ii) an outline of the minimum standards to be applied in respect of model audits through the insertion of a new Clause 5.4; (iii) guidance/clarification to IPPs following the receipt of queries around changes that may be incorporated in the pre and post Refinance Models; and (iv) for replacement of Clause 5.2(e).
3	16 September 2020	The purpose of Guidance Note 3 is to provide guidance to IPPs in respect of the timing of secondary transactions in relation to the utilisation of the new Equity IRR as the reference rate for the calculation of the Refinance Gain and to Provide IPPs with clarification pertaining to the “Base Case Equity IRR” as defined in Clause 4.1.1 (b) in the Protocol.
4	26 November 2020	The purpose of Guidance Note 4 is to provide for the replacement of Clause 5.4.3 introduced in Guidance Note 2.