

STATEMENT BY

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**Update on the Current Power Supply Situation and
Progress Made on NamPower Projects and Initiatives
to Ensure Security of Supply in Namibia**

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Members of the Media

Ladies and Gentlemen

A very warm welcome to you this morning and thank you for responding positively to our invitation.

We convened this press conference to update you on the current power supply situation in the country. We also use the opportunity to inform you about the progress we have made in the implementation of our short, medium and long term power supply programmes.

However, allow me briefly to state that the power supply shortage in the SADC region has forced most power utilities to implement demand side management (DSM) programmes, including load shedding. These measures have to some extent succeeded in restraining overall electricity consumption in those countries. Load shedding, however, has also had a negative impact on the socio-economic development in those countries, a situation that NamPower shall do its utmost to avoid.

In the long term, however, there is hope that the regional and domestic power supply shortages will be alleviated when capital intensive power plants will be commissioned to enable the generation of sufficient capacity to meet and to hopefully exceed future demand.

A. CURRENT POWER SUPPLY SITUATION IN NAMIBIA

a) Demand and Supply

The peak demand recorded on 5 March 2015 was 524 MW (excluding Skorpion Zinc Mine) against a peak supply of 300 MW recorded from local generation

sources. The shortfall between demand and supply continues to be supplemented by imports from various power utilities in the region as part of standing power purchase agreements (PPAs).

b) Power supply outlook

NamPower's stable record of providing a consistent and reliable supply of electricity is a heritage which we intend to uphold as far as humanly possible.

Despite the number of challenges including the expiry of agreements with Eskom and Aggreko, our ageing power supply infrastructure and associated high maintenance costs and difficulties in accommodating IPPs in the absence of government guarantees, I would like to reassure our stakeholders that we do not foresee an imminent threat to our power supply security– at least not before August 2016. This is mainly attributable to the re-commissioning of the Van Eck power station from the middle of this year, the rolling out of the DSM programme (including the free distribution of 1 million bulbs and the subsidised installation of 20,000 solar water heaters) later this year and the commencement, with effect from 01 April 2015, of the 80 MW PPA between NamPower and ZPC (Zimbabwe) which was signed by the two utilities at the end of last year. Notwithstanding this good news, however, we would like to caution our customers to use electricity wisely and to strive towards saving at least ten percent on their electricity usage.

Going forward, the most critical period will be after August 2016 when an enormous strain will be placed on the system and when an additional generation capacity of at least 250 MW will be needed to ensure security of supply for the country. Amongst the challenges during that period will be the expiry of the bilateral agreement with Eskom in 2016, lower output from Ruacana (due to lower water level), step loads (including Skorpion when their contract with Eskom expires in 2017) and general higher economic growth.

With the delay in commissioning some of the key power generation projects coupled with the ongoing power supply challenges in the region affordable firm imports are no longer available to Namibia. It is therefore important that we change our strategy of heavy reliance on imports to that of building of our own power stations in the country to become the main source of supply and use imports to fill gaps only. This new power supply strategy will also enable NamPower to retain part of the N\$10 billion spending on imports over the next three years into the creation of assets in the country, and thus stimulating socio-economic development through investments and job creation.

This is why the procurement of the 250 MW gas power project in the Erongo region, which is carried out through a transparent bidding process, is so critical and beneficial to the national economy. The commissioning of this plant will give us the breathing space and confidence in overcoming the challenges and difficulties prior to the commissioning of Kudu in 2018.

The plant will operate in base load mode before Kudu and in mid-merit mode post Kudu. It should also be noted that currently Namibia does not have a proper peaking plant in its power supply mix, apart from the small 22,5 MW Anixas power station at the Coast, which has become inadequate. The 250 MW plant will therefore also run as a proper peaking plant when required, and be readily available when the Kudu, Van Eck or Ruacana power stations are out of service for maintenance, planned or forced outages in future.

The successful commissioning of both the Kudu and 250 MW projects will not only ensure security of supply and long term power tariff stability, but will also transform Namibia from being a net importer to a net exporter of electricity.

B. PROGRESS ON THE SHORT TERM CRITICAL SUPPLY PROJECT (STCS)

a) Demand Side Management

NamPower will continue with the implementation of the DSM project as approved by Cabinet in December 2013. Specific DSM campaigns include the 1 million LED tender, the 20,000 Solar Water Heater project, Time of Use Tariffs and a Public Awareness Campaign under the theme “Power of Knowing”, advocating energy saving initiatives. Procurement for the 1 million LED bulbs and preparation for the 20,000 solar water heaters are at an advanced stage and the rolling out of these programmes will happen by the second quarter of 2015.

b) Generation: Van Eck and Ruacana rehabilitation

The Van Eck power station has been out of service for rehabilitation work since 2012. I am pleased to announce that the first unit at Van Eck is expected to return to service during April 2015, with the last unit expected for return to service by end of September 2015. This will result in a much more reliable and efficient power station meeting its original design output of 120 MW and a guaranteed base-load output of 90 MW at least for the next 10 years.

Regarding the runners replacement at Ruacana I am pleased to announce that the replacement of the runner for Unit 1 was completed and commissioned on 4 December 2014, with the replacement of runners for Unit 2 and 3 expected to be done during the low flow season and to be commissioned before the end of this year.

With the completion of the project the efficiency of the Ruacana power station will improve significantly and with the same volume of water the maximum output will increase by 15 MW from the current 322 MW to 347 MW.

c) Power Purchase Agreements with Regional Power Utilities

NamPower continues to renegotiate existing and new PPA's with neighbouring power utilities as follows:

- ✓ A new 80 MW PPA, signed with ZPC (Zimbabwe) on 16 October 2014, became effective on 1 April 2015. The agreement is structured to supply up to 350 GWh in a calendar year and is profiled to supplement the seasonality of Ruacana. The term of this agreement is 15 years, with the option to reduce the capacity to 50 MW after 10 years from the date of coming into its operation;
- ✓ Negotiations with EDM (Mozambique) for 80 to 100 MW mid-merit power have been concluded and the new PPA should be signed between the 2 utilities within the next few months;
- ✓ The existing 90 MW PPA with Aggreko will expire in August 2015 and is currently under re-negotiation;
- ✓ The existing Supplementary Agreement with Eskom for up to 200 MW which expired in March 2015 is also under re-negotiation.

d) PPA negotiations with Independent Power Producers (IPPs)

We are extremely pleased with the recent news received from Omburu Sun Energy (Pty) Ltd that the 4,5 MW solar PV power plant at Omburu, near Omaruru, will be commissioned before the middle of this year. PPA negotiations

with other IPPs such as Diaz and Arandis Power have been put on hold due to the fact that the Implementation Agreements which would outline GRN guarantees to be provided has not been concluded and will most probably not be provided at all.

e) The 250 MW Erongo Gas power station

I am also pleased to announce that significant progress has been made with regard to the implementation of this project. The project was endorsed by Cabinet in March 2015 and, subsequently, the NamPower Board of Directors resolved to approve the commercial agreements in principle, to appoint Xaris Energy as a successful bidder and to make a final investment decision (FID) on the project.

Negotiations with the successful bidder (Xaris Energy) and the Project Financiers under the leadership of Standard Bank will commence very soon with the view to conclude all commercial agreements and to reach Financial Close (FC) by the middle of this year. This project, in which NamPower will have 30 percent equity shareholding, will cost approximately N\$7,66 billion (including power station, floating storage and regasification unit and pipe line infrastructures) and will reach commercial operation by August 2016.

C. PROGRESS ON THE LONG TERM GENERATION PROJECTS

a) Kudu Power Station

Following the delays over the past few months the project is now firmly back on track after the Cabinet resolution last month to approve the Government support package which was also announced by the Honourable Minister of Finance in his budget speech late last month. The package includes the financing of the NamPower and Namcor obligations under the project (equity

and infrastructure) and provision of guarantees for the project. Following this positive development the Upstream and Downstream project teams are now hard at work to review the commercial agreements in line with the provisions of the government support package and to ensure that those agreements are concluded in time for the FID by mid 2015 and FC by December 2015.

As publicised in the media previously some of the key upstream partners have pulled out of the project, but Government and Namcor are hard at work and have assured us that substitute arrangements are being finalised and that this will not have an impact on the project timelines.

In the mean time NamPower has concluded EPC (Engineering and Procurement Contract) negotiations with Shanghai Electric as a preferred bidder and LTSA (Long term Service Level Agreement) with Siemens as OEM (Original Equipment Manufacturer).

Standard Bank has been appointed as MLA (Mandated Lead Arranger) and the contract in this regard will be signed soon. TCA (Transmission Connection Agreement) with Eskom and PPA (Power Purchase Agreement) negotiations with Eskom and CEC as regional off-takers are also at an advanced stage.

Furthermore evaluation of tenders for the appointment of the SEP (Strategic Equity Partner) and O&M (Operations and Maintenance) contractor are at an advanced stage and are expected to be concluded before FID.

b) Baynes Hydro Power Project

The Techno-economic and Environmental Impact Feasibility Studies were concluded by the consultants, approved by the PJTC and endorsed by both the governments of Angola and Namibia. The next course of action will now be the

creation of the permanent Baynes Project Offices in Windhoek and Luanda to coordinate the outstanding work, including the following:

- ✓ Finalisation of the new bilateral agreement between the two countries related to water regulation;
- ✓ Planning and coordination with government and other stakeholders for the creation of support infrastructure such as roads, transmission lines, telecommunications and housing;
- ✓ Coordination of meetings with the affected communities in the region to discuss and reach agreements on the compensation packages and other measures as contained in the Environment Impact Assessment Plan.

Construction of the Baynes Hydro Power Plant, at a cost of approximately U\$1,3 billion (excluding associated infrastructure) is expected to take 6 to 7 years, with commissioning by 2024. The next stage in this regard will be the final design, tendering and procurement process which can take up to two years to complete.

D. RENEWABLE ENERGY PROJECTS

a) Biomass and Concentrated Solar Power projects

As implementing agent, NamPower in partnership with other stakeholders including MME, NEI and Financiers, has commenced with the feasibility studies and the outcomes will be shared with the public as soon as they are made available.

b) The 3 x 10MW Solar PV tender

Project documents for the 30 MW solar tender have been finalised and will be submitted to the eight short listed companies for detailed bidding in due course. I am pleased to announce that all eight pre-qualified bidders have been approached and have agreed to waive their requirement for an Implementation Agreement, i.e. no GRN guarantees will be required as a condition for the implementation of the project. One of our conditions, also accepted by the bidders, is to have local content of at least 26 percent of the total project value in the form of ownership, sub-contracting and creating employment opportunities for Namibians.

c) Interim REFIT programme

NamPower together with the ECB have embarked upon the REFIT (Renewable Energy Feed In Tariff) programme, which is meant to accommodate small to medium sized businesses in the generation of power from various renewable energy sources up to the maximum of 5 MW per business.

This unsolicited process is meant to develop local capacity through ownership as each investor is obliged to allocate at least 30 percent of the ownership of the IPP business to previously disadvantaged Namibians. We are expecting to get about 70 MW from this programme within the next two years.

E. TRANSMISSION PROJECTS

To ensure that electricity is reliably delivered to all parts of Namibia, NamPower is embarking on an extensive transmission expansion program as outlined in the recently approved transmission master plan. Over the next five years,

NamPower will spend approximately N\$7 billion on this program. As part of this program a number of transmission projects are currently under implementation.

F. CONCLUSION

Director of ceremonies, esteemed members of the media, ladies and gentlemen;

As I have indicated on a number of occasions, the power supply situation in Namibia will remain critical until the commissioning of a base load power station in 2018. I would therefore, once more, like to appeal to all customers to support our new power supply strategies and programmes, and to meet us half way by reducing their electricity usage by a minimum of 10 percent, especially during peak hours - from 06h00 to 09h00 in the morning and from 18h00 to 21h00 in the evenings.

I thank you