

October 20, 2010

**Comments from Australia on the AfDB/IBRD
South Africa: Eskom Renewables Support Project**

Dear colleagues

Thank you for the opportunity to comment on the program document. Australia has the following comments about CTF support to the Eskom Renewables Support Project:

- The ability of the projects to attract requisite funding from development banks is unclear, e.g. §13 of Annex 12 of the Project Appraisal Document (PAD) states that upon finalisation of IBRD/CTF loan package, Eskom will formalise its discussions with AFD and KfW by way of formal request. It also states that Eskom is committed to financing any costs that remain unfunded upon the completion of the debt raising effort in December 2010. However, this may prove problematic given Eskom's financial situation, which may largely be dependent on achieving annual electricity price increases of ~25% for each of the next 5 years. We would appreciate further information on how this risk will be managed.
- The difficulties of attracting finance for the Upington CSP project are particularly acute given that the CSP technology is unproven at the scale envisaged. We note that more established, lower cost CSP technologies are available – for example those described in the Middle East and North Africa CTF project document.
- The Sere Wind project utilises proven technology and hence may provide greater certainty of attracting finance. However, as pointed out by other Committee members, it is unclear why the wind project is located in an area of only 'moderate' wind resource. In addition, the PAD states that 400-500MW of wind projects are also being studied, however, the status of these projects is not clear. This is important given that the transmission line funded under the wind project should be designed to serve follow on investments.
- The GHG savings expected from the project may be overstated. They are calculated based on offsetting coal-fired generation, using an emissions factor of 1.09tCO₂/MWh. However, it may be more accurate to use the electricity grid emissions factor, which is stated as 1.02tCO₂/MWh in the financial analysis in Annex 10.
- The development impacts cited in the PAD focus primarily on improving energy security and creating jobs from construction and in local manufacturing industries, however, estimated employment figures are given only for the first year of construction. We would welcome any further information on the development impact of these projects (and those that follow them), including any available estimates of the reduction in energy intensity of GDP in South Africa.

Thanks again for the opportunity to provide input to the approval process. We look forward to a response to our comments from the project proponents.

Jean-Bernard Carrasco