

## **INNOVATIVE, INSIGHTFUL FUNDING IS KEY TO HELPING SOUTH AFRICAN MINES TRANSITION TO RENEWABLE ENERGY**

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Securing cost-effective and reliable power for mining operations in South Africa, while at the same time ensuring these operations remain environmentally responsible and competitive, is key to the energy transition that needs to take place in the country's mining sector.

Other factors that are pushing mining companies to secure other cheaper, renewable-energy sources for their operations include ongoing energy supply constraints and the constant above-inflation increases to electricity prices.

Considering that the mining sector is one of the largest consumers of power in South Africa, the transition to cleaner power is a more urgent matter, as this will be a significant contributor to, and driver of, the broader move towards a greener economy for the country.

Apart from this environmental motivation, the increases in the cost of electricity in South Africa, as well as the steady decrease in the cost of renewable-energy generation and battery storage as these achieve scale across the country, make this move a prudent business decision for mines as well.

Many of the historic barriers around renewable energy have been broken down in recent years, and this has paved the way for the mining industry to lead the transition to renewable energy. This growth in mining company investment and activity in renewable-energy projects is evidenced by the more than 3 500 MW of renewable-energy projects announced within the global mining sector in 2019 – a dramatic increase from the 1 800 MW seen in 2018.

While the events of 2020 certainly slowed down this trend, there can be no doubt that it will continue unabated in the coming years. This comes as local mines begin to follow the example of their international counterparts, which are increasingly opting for hybrid solutions that position their operations for 80% to 100% renewable energy.

Of course, moving towards a scenario where renewable-energy sources are a significant component of a mine's overall power requirements is no easy task. So, while a few mines have attempted to establish their own embedded energy structures, the majority now recognise that the most viable method of securing access to renewable-energy supply is through a power purchase agreement (PPA) with an independent power producer (IPP) model.

While this is a more financially accessible approach– these funding structures are highly complex and come with many unique risks. This highlights how important it is for mining companies and IPPs to partner with finance providers. These providers should not only have a very clear understanding of the mine's operations and financial position, but also deep insights into the nuances and complexities of renewable energy, and have experience in designing project finance structures that can successfully bring participants in these two complex sectors together.

Nedbank is such a finance provider, with vast experience and proven leadership in both mining and renewables. And this experience has consistently reinforced the increasingly important role that debt funding is coming to play in effective and successful renewable-energy project finance agreements between mines and IPPs.

In contrast, a well-structured project finance arrangement, which includes the involvement of a special-purpose vehicle (SPV) created by the IPP with the sole purpose of carrying out the project, makes good sense for all parties. In these types of project finance arrangements, the responsibility for building and operating the power plant does not fall to the mine. Instead, the mine's primary responsibility is to provide the necessary financial guarantees and liquidity support for the duration of the project – and that is why a good relationship with a knowledgeable finance provider is important.

Importantly, this type of project finance arrangement also allows for equitable allocation of risk across all project participants, while ensuring that each party's contribution to the project falls within its unique area of expertise and ability. This further enhances the bankability of these mining-based renewable-energy projects, particularly where energy and mining finance teams can cooperate closely to design innovative funding structures that tick all the boxes for every project participant, as is certainly the case at Nedbank CIB.