

November 15, 2013

Comments from United Kingdom on the Update on the CTF Investment Plan for South Africa

Dear Patricia,

With respect to the revised Investment Plan for South Africa please note the following:

We are disappointed with this revised investment plan as we have found it very difficult to assess to what extent these projects meet the CTF investment criteria. In particular, there is no quantification of the potential emission savings or cost effectiveness, a lack of clarity on the additionality of CTF resources, and a weak justification for how replication and scale up will be achieved. These issues need to be addressed for both projects and we expect to see these in responses to our questions.

We are very keen for the CTF to support the deployment of technologies such as CSP, however, we need a much stronger justification to show how CTF resources will be additional to the business as usual scenario.

Results

1. The investment plan hasn't shown the impact on the results framework for either of the potential projects, please submit a completed results framework.

Support to Sustainable Energy Generation Programmes (SEG)

2. As the first three rounds of REIPPPP have been oversubscribed and there have been huge tariff drops for CSP and PV, we need to see how the CTF finance will be targeted, in order to make a clear case for its additionality. This should include reasons why the existing DFIs and SA commercial banks are not financing small scale RE. In addition, the reason why the South African DFI cited in the proposal is unable to provide 100% of project funding requirements.
3. How much of the USD57.5m will be allocated to CSP and to small RE? CSP is very expensive USD57.5m won't buy a lot of it; if half will go to small RE, how will the rest be targeted to really leverage additional finance for CSP?

Support to Vehicle Efficiency Programme (fuel switching)

4. Overall, the UK is not happy about low carbon funding being used **"to provide a market to develop gas infrastructure"** as set out in the proposal. This does not fit well with our view of the transformational ambitions of the CTF which should encourage a transition away from fossil fuel dependency.
5. The project proposes to support 38,000 units over a 20 year period. How will the transaction costs of this project be managed over the 20 year period?
6. The proposal states that it will be implemented in phases and will commence with the public transport system and then will be expanded to the trucking industry.

However the programme plan table does not appear to show that trucks will lag behind. 1000 trucks will be converted in the first 2 years. Is this plan realistic?

7. The document cites 'a CO2 emissions reduction of between 50-60% per unit, depending on vehicle category or type'. On what evidence is this figure based?
8. In particular because the project document states that the DoT is attempting to overcome the strain on roads by advocating a **road to rail modal shift** of freight, is this support to road freight really sustainable and where CTF finance should be targeted?
9. The proposal states that the financing plan (\$375m) does not cover hard infrastructure. However the implementation potential of this project relies not only on concessional finance required to retrofit vehicles, but also the construction of fuelling and storage facilities and the construction of a natural gas pipe network. Yet the proposal provides no clear strategy to ensure that all of these can be implemented to ensure success of the project.
10. The only strongly low carbon element of this proposal is the potential to use biogas in the vehicles. This is much more in line with the objectives of the CTF and we are **strongly supportive** of this component. What is the current installed capacity of biogas generation in SA and how is this predicted to grow over the next twenty years? Will CTF funds be used to directly support the development of this market, or will retrofitted vehicles boost demand? In addition, what are the competing demands for biogas generation in SA?

Kind regards

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