



January 14, 2009

Dear Mr Sbusiso Zungu,

Thank you for the opportunity to comment on NERSA's proposal to implement a "Renewable Energy Feed in Tariff". I would like to commend NERSA for investing significant time and energy in the process of developing a REFIT model.

On the whole I believe the documentation provided to the public demonstrates a sincere effort to arrive at a fair mechanism for compensating entrepreneurs and investors in the renewable energy sector for their efforts to develop new technologies and projects that will contribute significantly to providing all South African with the energy required for sustainable economic growth.

Please consider these comments as preliminary, offering only a brief overview of the areas where we believe NERSA should reconsider its approach. This document is in no way a comprehensive and exhaustive critical review of the documentation provided. It is our hope that by laying out these points for your consideration, we will have the opportunity to engage with you more intensively in the process of formulating the RFIT scheme.

Our main concerns are as follows:

1. The very low tariff suggested for Concentrated Solar Power
2. The proposed tariff duration is significantly shorter than one would expect based on minimal required return on investment
3. The concept of a rate digression in an inflationary economic environment
4. The weak supporting documentation comparing REFIT's around the world.
5. The omission of Photovoltaic and micro wind turbine technologies

Concentrated Solar Power

Based on various studies publicly available such as Sargent & Lundy's 2003¹ study of CSP costs or Sunlab's study "Assessment Of Parabolic Trough And Power Tower Solar Technology Cost And Performance Forecasts"² we believe that the CSP FIT should begin in 2009 at a rate of approximately R0.96/kWh. We believe one of the key barriers to deploying CSP will be attracting a reputable international OEM. Most of the CSP OEM's in the market today have a significant pipeline of projects on the go and thus it will be very difficult to attract them to South Africa unless the rates offered are similar to rates they are used to in Europe and the US. Also in our view it is questionable whether South African banks will be able to finance the total cost of these projects requiring developers

¹ Assessment of Parabolic Trough and Power Tower Solar Technology Cost and Performance Forecasts; S Sargent & Lundy LLC Consulting Group; <http://www.nrel.gov/csp/pdfs/35060.pdf>

²"Assessment Of Parabolic Trough And Power Tower Solar Technology Cost And Performance Forecasts" <http://www.energylan.sandia.gov/sunlab/PDFs/Assessment.pdf>



to seek international financial institutions to invest. International financial institutions have indicated that they require a significant risk premium before they will invest in projects on the African continent.

Therefore, we would urge NERSA to avoid looking at the cost plus model as a suitable model for setting the REFIT and rather take into account the market conditions in which an investor will be backing such projects. In the best case scenario, we believe shooting too low with the price will delay deployment by several years. Such a delay could potentially destroy South Africa's credibility with international service providers, OEM's and financial institutions who we all depend on to deploy these technologies.

Tariff Duration

For CSP, typically Power Purchase Agreements are 20 to 25 years. 15 years is short and does not provide the guaranteed cash flows investors are seeking. The Levelized Energy Cost calculations appearing in the studies quotes above that are widely accepted globally are based on 30 year economic life. Thus 15 years do not offer an adequate guarantee for investors especially considering that competition for scarce capital has hit all capital intensive industry solar included.

Rate Digression

The rate degression is an additional factor makes calculating ROI and other financial metrics more complicated.

Supporting Documentation

We could not find the supporting documentation mentioned in the footnotes after significant effort. It would be greatly appreciated if you could provide these documentations either via email or to notify the public of the correct url where we could find them.

Leaving out photovoltaic and micro wind turbines

In the documentation little explanation was given as to why PV and micro wind turbine technology was left out of the REFIT program. These two technologies offer some of the quickest ways to roll out renewable energy. In addition these technologies can help to stabilize the grid which is a major factor in adding on renewable energy sources to the grid.

It is our hope at Kayema that the above comments will trigger further discussions and engagement in the defining the REFIT. I look forward to discussing with you further the possible remedies to the above concerns.

Sincerely,



Daniel Schwab
Managing Director
Kayema Energy Solutions (PTY) Ltd.