



BRIEFING OF THE NCOP BY TCTA ON LHWP-II @ GAUTENG PROVINCIAL LEGISLATURE

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Outline

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Introduction [1]

- The Kingdom of Lesotho and the Republic of South Africa signed an agreement on 11 August 2011 for the implementation of Phase II of the Lesotho Highlands Water Project.
- The Lesotho Highlands Water Commission has overall responsibility for the implementation of the project on behalf of the two countries.
- The RSA delegation to the Commission is appointed by the Minister of Water and Sanitation and reports to the DG: Water and Sanitation.

Introduction [2]

- In terms of the Treaty, South Africa must make cost-related payments to the Lesotho Highlands Development Authority to cover the costs of the water transfer component.
- These can take the form of payments to cover the construction costs as they are incurred or payments to cover capital and interest payments on loans taken out by the LHDA. In Phase 1 both mechanisms were used.
- For Phase 2 the LHWC decided that the most cost-effective route was for TCTA to raise the loans on behalf of the Department of Water and Sanitation and transfer the money for construction to LHDA when required.



The role of TCTA as an entity of the Department of Water and Sanitation regarding LHWP Phases 1 and 2

PART A

Status on funding of LHWP-Phase 2

Funding arrangements [1]

- TCTA is mandated to raise and manage debt for LHWP (phases 1 and 2).
- Treaty provides for SA government to guarantee debt raised by TCTA in relation to LHWP.
- Debt is serviced by income from capital charges included in water tariffs paid by Vaal River System (VRS) water users.
- Tariffs are collected by DWS and capital charges passed to TCTA.

Funding arrangements [2]

- VRS tariffs are sufficient to repay debt raised for LHWP-1, LHWP-2 and 33% of cost of treating acid mine drainage (AMD), over 20 years.
- Debt for LHWP-2 is raised under the same funding programme as LHWP-1 and AMD as part of the integrated VRS.
- AMD contributes to water quality, security and resilience of the VRS.
- LHWP-2 construction costs: R42.0 billion.

Funding strategy [1]

The current funding strategy for the VRS:

- Cash resources (as of 04 September 2023) – R5.4 billion
- Available revolving credit facilities – R1.5 billion
- Available long-term loan facilities – R8.9 billion
- Projected revenue from tariff collections: from 2023 to 2028 (end of construction): R26.1 billion

Funding strategy [2]

The current funding strategy for the VRS (cont.):

- R4.5 billion concluded with African Development Bank (AfDB) and New Development Bank (NDB), currently awaiting fulfilment of Conditions Precedent (CPs) including the issuance of government guarantees.
- Loan Agreement with AfDB (R1.3 billion of the R4.5 billion) already concluded and the government guarantee has been issued, awaiting fulfilment of CPs.
- NDB (R3.2 billion of the R4.5 billion) – Loan Agreement signed in August 2023, awaiting issuance of a government guarantees and fulfilment of other CPs.
- A new R10 billion Domestic Multi-Term Note Programme (DMTN) still under negotiation between TCTA and NT – expected to be ready for issuance of new JSE-listed debt to the Capital Markets by January 2024.



Funding strategy [3]

Outstanding Issues that could delay conclusion of DFI Loans

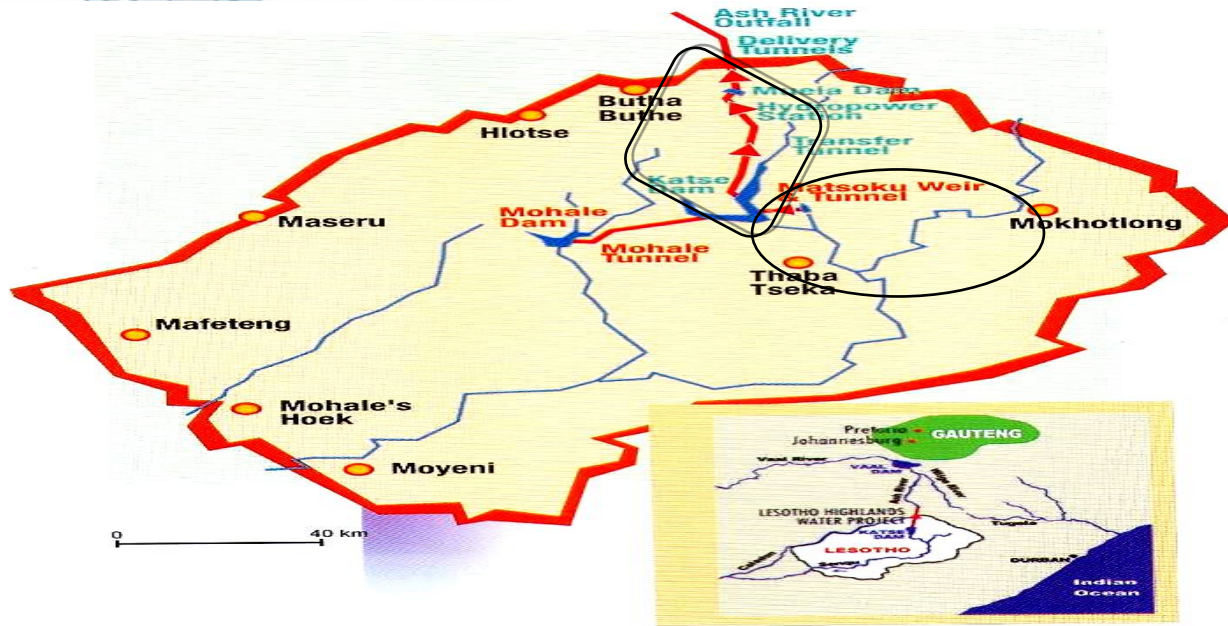
- Diplomatic Immunities for the New Development Bank (CP to Financial Close for NDB). NDB has accepted the mitigation measures proposed by DIRCO and have since signed the loan agreement on that basis.
- No Objection Letter from Namibia (CP to first drawdown for NDB). Not much progress has been made to secure No Objection Letter from Namibia. TCTA exploring alternatives in case No Objection Letter is not received.



The role of TCTA as an entity of DWS

PART B ***Status on LHWP-Phase 1***

Lesotho Highlands Water Project (LHWP- Phase 1)



Purpose

- LHWP augments the Vaal River System and generates hydroelectricity for Lesotho.
- Transfer or delivery volumes - 780 million m³ per annum and generates 72 megawatts of hydropower through the Muela Power Station.

LWHCP Treaty Protocol VI

- To operate and maintain Delivery Tunnel North transfer scheme in a cost effective and environmentally sustainable manner.
- Critical maintenance activity:
 - Conduct the tunnel outages (5 years intervals) – 2024
- **Operator:** TCTA in-house





LHWP Phase 1 [2]

- The Lesotho Highlands Water Project was commissioned in January 1998 and has been in operation since then.
- TCTA operates and maintains the Delivery Tunnel North's (DTN), RSA section of the section of the LHWP tunnel system.
- Operations and Maintenance (O&M) manuals of the DTN requires general inspections and repair works to be conducted at approximately 5 years intervals to ensure the integrity and reliability of the DTN.
- To conduct inspections and repair works, the shutdown of water supply to RSA is required. This implies that the LHWP tunnel system will have to be shutdown and emptied to enable inspections and repair work to be performed.



LHWP Phase 1 [3]

- Coordination between TCTA, LHDA, Department of Water and other key stakeholders is critical.
- Similar types of shutdowns were successfully executed in February 2003, October 2012 and October 2019.
- The next major shutdown will be conducted in October 2024 and will take approximately 6 months.
- During this shutdown period, there will be no water deliveries from Lesotho to South Africa.
- LHDA and TCTA will try to minimize the impact to the Vaal River System by delivering more volumes prior and post the planned shutdown.



Conclusion

- TCTA as an entity delivers on the mandates given to it by the Minister of Water and Sanitation.
- As stated on slide 4 above in respect of LHWP-2, TCTA is expected to raise the loans on behalf of the Department of Water and Sanitation and transfer the money for construction to LHDA as and when required.

Thanking You

