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FINANCE DIVISION

PROVISION OF PROFESSIONAL FINANCIAL ADVISORY SERVICES TO NATIONAL TRANSMISSION COMPANY SOUTH AFRICA (PTY) LTD

SCOPE OF SERVICES

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ABSTRACT

This document forms part of the New Engineering Contract, Professional Services Contract 3rd Edition.



The document defines the Scope of services required from the *Consultant* to perform Financial Advisory Services (Transaction and Debt Advisory).

CONFIGURATION CONTROL

Document History

Rev.	Date	Preparer	Changes
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Document Approval

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Document Retention Time

This document is a Quality Record and shall be retained in accordance with Eskom Record Management Procedure.

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ABBREVIATIONS

This list contains the abbreviations used in this document.

Abbreviation or Acronym	Definition
FAS	Financial Advisory Services
SHEQ	Safety, Health, Environmental and Quality
IT	Information Technology
WBS	Work Breakdown Structure
IFRS	International Financial Reporting Standards

DEFINITIONS

Term	Definition
Accepted Programme Activity <i>activity schedule</i> <i>Consultant</i> Contract Data <i>Employer</i> <i>key person</i> <i>period for retention</i> Scope <i>services</i> Time Charge	These terms are defined in the Professional Services Contract, 3 rd edition.

Term	Definition
Deliverable	A contractual deliverable in terms of the Scope of <i>services</i>
Technical Review	A review by the <i>Employer</i> of Deliverables, submitted by the <i>Consultant</i> for Acceptance, as part of the <i>Employer's</i> Acceptance process.

1. INTRODUCTION

This document outlines the Scope of *services* required from the *Consultant* to provide financial advisory services (Transaction and Debt Advisory) to National Transmission Company South Africa (Pty) Ltd (NTCSA).

1.1 EMPLOYER'S OBJECTIVE

The *Employer's* objective is to appoint a panel of financial advisors that will benefit the entire business by:

- Ensuring quicker appointment of consultants or firms to address the needs of the business
- Greater governance in the appointment of consultants through the Panel Control Committee.
- Better co-ordination between Divisions and improved control over financial and related services spend across the business
- Greater control of spend on the contract

1.2 BACKGROUND

NTCSA requires independent advisory services that provide a comprehensive global analysis, with local context, on integrated utility companies which have unbundled their transmission businesses, including best practise models relating to financial, operational and funding structures. The panel should have the relevant strength and experience within the corporate finance, financial and debt capital markets disciplines within the power sector.

The *Employer*, throughout the term of the panel will issue requests for quotation to the panel suppliers, evaluate the quotations and award Task Orders for the *Consultant* to carry out the scopes for the Task Orders. The *Consultant* shall not exceed the costs approved under each Task Order unless proof is provided by the *Employer's Agent* that such additional costs have been approved by a governance structure.

2. SCOPE OF SERVICES

The scope of *services* will vary for each Task Order. As a guideline it should be noted that the scope of work, at any particular time is expected to include, but will not be limited to the following:

2.1 SCOPE FOR PANEL A (TRANSACTION AND DEBT ADVISORY SERVICES)

2.1.1 Provide a retrospective view on the structural and financial aspects in respect of the implementation of the merger transaction between Eskom Holdings SOC Limited and NTCSA, including the following:

- Implications for NTCSA of the Upstream Guarantee provided;
- Impact on future borrowings;
- The intercompany loan structure and its specific terms;
- The organisational structure;
- The transfer pricing policies / mechanisms;
- Governance structures; and
- Shareholder relationship considerations

2.1.2 Provide “Best Practise” globally of integrated utility companies that have unbundled their transmission businesses, including:

- A comparison to NTCSA’s structures focussing on regulatory frameworks, organisational structures, revenue and cost models, governance and shareholding frameworks;
- Global case studies highlighting entities that are majority held by a conflicted shareholder with examples of decision-making matrices, funding models and operating models utilised;
- A comparison to NTCSA’s capex roll-out model i.e. based on IRP vs. market demand driven roll out;
- A comparison to NTCSA’s proposed Market Operator model;
- A gaps analysis and recommendations for NTCSA to implement its standalone transmissions strategy in the context of the South African utilities market.

2.1.3 Provide advice on the credit rating framework that would likely be adopted by rating agencies in deriving a view on NTCSA’s credit rating, including:

- Key levers that would impact NTCSA’s rating; and
- Key steps to be taken to prepare NTCSA for a rating process

2.1.4 Review and assess the adequacy of the financial model, including:

- An assessment of the reasonability of NTCSA assumptions; and
- A comparative view on the International best practice of revenue, costing and Return on Assets (ROA) models seen in the Transmission Industry as well as the industry norms on tariff increases.

2.1.5 Review and assess the adequacy of the current operating model across all NTCSA business units and provide a comparison to the models most widely used globally.

2.1.6 Review and assess NTCSA's approach to private sector participation through the ITP programmes, including:

- Global ITP case studies (developed and developing markets), including successes and challenges which were experienced;
- Unpacking the various ITP procurement models and the pro's and con's of each model;
- NTCSA's readiness for implementing the ITP strategy;
- NTCSA's approach to setting up the ITPO, including global comparatives; and
- Assess the levers required to support commercial viability for prospective ITP's, e.g. incentive structures and compare these levers to global precedents.

2.1.7 Review and assess NTCSA's planned capital allocation across all business units, including allocation towards the ITP roll out, resourcing, system and telecommunication enhancements.

2.1.8 Provide a funding framework and parameters for bankable transactions, including:

- The financial parameters (within the Transmission industry and within the context of NTCSA) which have to be met at a minimum, e.g. business sustainability indicators;
- Debt capacity for NTCSA considering global benchmarks and rating requirements. This will include the appropriate financial metrics and comparison with global peers; including peer group and case studies (unbundling and independent gridco);
- Provide a view on the possible credit rating of NTCSA and minimum rating required by funders / SBSA;
- Provide insight into how credit ratings will impact on (a) quantum and (b) pricing of funding; and
- Provide any credit enhancement requirements to support a credit rating uplift in an instance where there is a deterioration of the credit rating due to gearing, credit risk, MYPD6 proposal not being agreed to by NERSA or Upstream Guarantee.

2.1.9 Create a funding strategy for NTCSA, including specific considerations for the following:

- Funding alternatives / options and credit enhancement requirements. Provide a comparison against relevant / comparable international best practice, international benchmarks and suitable peers;
- Optimal capital structure, including international benchmarking; and
- Impact of regulatory, tax, legal and financial implications of the various funding alternatives.

2.1.10 Provide an overall view of how the NTCSA capital plan can be rolled out in terms of the funding strategy:

- Advise on the funding implications across the various ITP procurement models.

The above scope of work will require the service providers to submit a proposal of the work, demonstrating their necessary skills, experience (including human resources that will be available for the advisory work).

2.2 REVIEW AND ACCEPTANCE OF DELIVERABLES

Acceptance of Deliverables by the Employer will generally follow the process outlined in Table 1.

Table 1: Process for Review and Acceptance of Deliverables

Ref.	Task	Responsibility
A	<i>Employer</i> raises PO for the Task	<i>Employer</i>
B	<i>Consultant</i> prepares Task Specification Sheet	<i>Consultant</i>
C	<i>Employer</i> approves the Task Specification Sheet	<i>Employer</i>
D	Task Completed in accordance with internal quality assurance procedures	<i>Consultant</i>
E	Authorized person within <i>Consultant</i> organization approves deliverable	<i>Consultant</i>
F	<i>Consultant</i> submits the deliverable to the <i>Employer</i>	<i>Consultant</i>
G	<i>Employer</i> reviews the deliverable using the requirements set out in this document as the basis for the review	<i>Employer</i>
H	<i>Employer</i> forwards review comments to the <i>Consultant</i>	<i>Employer</i>
I	Review meeting is held to discuss the <i>Employer's</i> comments	<i>Employer and Consultant</i>
J	<i>Consultant</i> updates the deliverable as per review meeting	<i>Consultant</i>
K	Authorized person within <i>Consultant</i> organization approves the updated deliverable	<i>Consultant</i>
L	<i>Consultant</i> submits updated deliverable to the <i>Employer</i> for acceptance	<i>Consultant</i>
M	<i>Employer</i> accepts deliverable documents in writing, provided that comments have been incorporated as per agreement between the parties	<i>Employer</i>
N	An authorized person within <i>Consultant</i> organization approves the revised deliverables	<i>Consultant</i>

Ref.	Task	Responsibility
O	<i>Employer</i> accepts the deliverables	<i>Employer</i>
P	<i>Employer</i> confirms acceptance of deliverables in writing	<i>Employer</i>

2.3 REVIEW MEETINGS

- a. The *Consultant* and the *Employer* will review the Deliverables in meetings organized and scheduled by the *Employer*.
- b. The *Consultant* ensures that all follow-up actions are carried out within the time stipulated.
- c. The *Employer* may, in addition to the scheduled review meetings indicated, request additional reviews.
- d. The *Employer* may involve independent third parties in any of the review meetings.

2.4 PROGRESS MEETINGS

The *Employer* and the *Consultant* hold regular meetings to review the progress made with respect to the programme for delivery of the deliverables, to discuss early warnings, etc.

The *Consultant* agrees the frequency and venue of the progress meetings with the *Employer*.

The *Consultant* agrees a schedule for the progress meetings with the *Employer*.

The *Employer* keeps minutes of these meetings.

Note: Minutes of meetings will not form any basis of variations or amendments to the contract. The *Employer* communicates contract variations or amendments formally and separately to the *Consultant* by means of compensation events.

3. DELIVERABLES

3.1 SCHEDULE OF DELIVERABLES

The *Employer* will develop a schedule of deliverables, based on the scope of services required at Task Order issue. The deliverables are reviewed and discussed during scheduled review meetings.

3.2 SCHEDULE OF REVIEW MEETINGS

Review meetings for all deliverables will be scheduled as and when required during course of the assignment.

4. RECEIVABLES

4.1 OTHER RECEIVABLES

The *Employer* shall provide other documents as required per Task Order.

4.2 ADDITIONAL INFORMATION REQUIRED

The *Consultant* identifies any additional information required from the *Employer*, and indicates it accordingly as part of the Programme.

4.3 CHANGES TO EMPLOYER FURNISHED INFORMATION

The *Consultant* does not alter the content of any *Employer* furnished information or data for design purposes without the written authorization of the *Employer*. Should the *Consultant* have any doubt about the design suitability or correctness of any *Employer* furnished information or data, or has proposals for changes, it advises the *Employer* accordingly at the earliest opportunity. The *Consultant* ensures that the design of Deliverables, using *Employer* furnished information or data, is in accordance with the specific requirements of such Deliverables.

5. REQUIREMENTS APPLICABLE TO DELIVERABLES

5.1 GENERAL DOCUMENT FORMAT

5.1.1 General

- a. All documents, except data sheets, conform to the formatting standards as listed in paragraph 5.1.2. Any deviation from this format is to be agreed to in writing by the *Employer*.
- a. Where no standard is prescribed, the *Consultant* proposes the format and contents to the *Employer* for review and acceptance.

5.1.2 Document Format

5.1.2.1 Document and data numbering

A unique Identification Code Number is assigned to each document or data so that it can be:

- correctly associated with its related data and items;
- referred to precisely; and
- retrieved when necessary.

5.1.2.2 Revision identifiers

Documents and data have revision identifiers to indicate the current revision status.

5.1.2.3 Document identification

- a. Each document provides the data, as listed below, to properly identify the document. The following are indicated on each page of a document:
 - Company Name
 - Proprietary Classification
 - Document Title
 - Document Number
 - 'Revision' – document revision identifier
 - Date
 - 'Page number' of 'number of pages'
- b. Each page of a document, including all attachments, is numbered consecutively from the first to the last page.

5.1.2.4 Amendment history

Each document includes an amendment history that indicates the following for each revision:

- Revision identifier.
- Date (either release date or effective date).

- Preparer.

5.1.2.5 Approval signatures

Each document includes the names and signatures of the preparer, reviewer and approver.

5.2 FORM OF DOCUMENT RETENTION

Copies of documents, records, calculations and associated raw data are stored in a format that can be read by the user, or converted to human readable form, regardless of the media used. Copies are stored in such a way that they remain legible, readily identifiable and retrievable for the entire lifetime of the *services*.

5.3 DOCUMENT COPIES AND SOFTWARE FORMATS

Documents, are submitted as one hard (paper) copy, one soft copy in Adobe PDF format and another software copy in Microsoft format, on a compact disk which is uniquely identified on it as to its contents.