

A monthly review of energy-related news

South Africa Energy Roundup

NOVEMBER 2017

General

Electricity industry approaching 'breaking point', City Power warns

Johannesburg's electricity utility City Power is warning that the current structure of South Africa's electricity sector is unsustainable and that, in the absence of a coherent national policy, the sector is approaching "breaking point". Demand- and supply-side manager Paul Vermeulen says that municipal distributors, along with State-owned Eskom, are facing major technological, demand and tariff "disruption" and that the prospect of "forced restructuring" is now chillingly real. He attributes the crisis to the stagnation in distributor-level consolidation and the lack of progress in advancing the Independent System and Market Operator (ISMO) legislation. The ISMO is considered as a necessary condition for facilitating competition among generators, as it would be an independent body that buys electricity from Eskom and independent power producers (IPPs). Eskom's "uncompetitive tariffs" are likely to result in an increasing number of municipalities challenging the current single-buyer model, a Cabinet decision of 2007 that stipulates that Eskom act as that buyer, and an interpretation of Section 34 of the Electricity Regulation Act that a Ministerial determination is required for all new generating plant. Already, the City of Cape Town is taking the Energy Ministry to court over an insistence that the city refrain from buying electricity directly from renewable-energy IPPs. The City of Cape Town has set a target to source at least 20% of its energy from renewable sources by 2020. In the event they meet the target, the city could, according to a mini-integrated resource plan produced by the Council for Scientific and Industrial Research, realise yearly savings of R500-million on their bulk energy purchases from 2023 onwards.

New Energy Minister appointed in Cabinet reshuffle

On October 17, Energy Minister Mmamoloko Kubayi was replaced by State Security Minister David Mahlobo in a surprise Cabinet reshuffle by President Jacob Zuma. This was the second Cabinet reshuffle in seven months.

Nuclear

NNR expects nuclear installation licence by mid-2018, Minister says nuclear unaffordable

The National Nuclear Regulator (NNR) expects an installation site licence for a nuclear power plant to be issued by June next year. The Department of Environmental Affairs has already granted authorisation to State-owned Eskom to

build a new 4 000 MW power plant in the Western Cape. However, Finance Minister Malusi Gigaba has made it clear that government and South Africa cannot currently afford to pursue a new nuclear build programme. He said during his Medium-Term Budget Policy Statement, in October, that the position might change should the country begin growing again. Meanwhile, new Energy Minister David Mahlobo has expressed support for the immanent roll-out of nuclear. Despite the clear variance in the two Ministers' positions, during the most recent quarterly parliamentary question and answer session, President Jacob Zuma played down any hint of divergence between the two stakeholders, saying both are firmly behind government's mixed energy policy that calls for nuclear power. Nuclear reactors, including those of Russia's Rosatom, South Korea's Kepco, France's EDF and Areva, Toshiba-owned Westinghouse's and China's CGN, are eyeing the South African project. EDF has confirmed that it would participate in a tender should the country go ahead with a nuclear bid.

Renewable energy

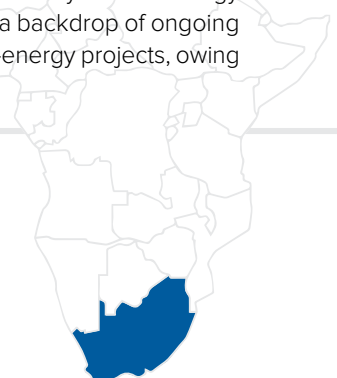
EU raises concern about renewable IPP stance

European Commissioner for Trade Cecilia Malmström has communicated the European Union's unhappiness about public electricity utility Eskom's refusal to enter into contracts with renewable-energy independent power producers (IPPs), some of which are European, directly with the South African government. Malmström did not disclose details of her discussion with Trade and Industry Minister Dr Rob Davies, confirming only that the IPP issue had been raised as a particular area of concern.

Renewable-energy snapshot

At the end of July, the combined installed generation capacity of renewable-energy independent power producers (IPPs) stood at more than 3 200 MW across 58 sites. Twenty-seven of these operating IPPs are based in the Northern Cape, 13 in the Eastern Cape and nine in the Western Cape. Thirty-three IPPs produce electricity using solar photovoltaic (PV) generation technology, while 18 produce electricity using wind turbines. There are also four operating concentrated solar power IPPs, two small-scale hydro sites and one landfill gas IPP. In total, all the IPPs had generated almost 18 000 GWh of energy by the end of July, with the wind farms generating 9 161 GWh and the solar PV sites 7 726 GWh. The snapshot of renewables generation was provided by former Energy Minister Mmamoloko Kubayi against a backdrop of ongoing delays in introducing new renewable-energy projects, owing

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to State-owned Eskom's refusal to sign power purchase agreements for solar PV and wind projects procured through the Renewable Energy Independent Power Producer Procurement Programme in 2015.

Robben Island inaugurates R25m microgrid

Robben Island, a World Heritage Site, has gone green with the installation of a R25-million solar energy, lithium-ion battery storage microgrid that will supply almost half of the island's yearly electricity requirement. The Department of Tourism, together with the appointed engineering, procurement and construction contractor Sola Future Energy and technology provider ABB officially inaugurated the microgrid in October.

Eskom funding and tariffs

Eskom a 'risk to entire economy' – Finance Minister

As guarantor of a significant portion of State-owned power utility Eskom's debt, the prevailing governance problems at the State-owned utility are of "grave concern" and have become an "enormous risk" to government and the entire economy, Finance Minister Malusi Gigaba said during his Medium-Term Budget Policy Statement, in October. The Minister said failures of governance, leadership and financial management had displaced previous concerns about electricity shortages as a major concern of government. "Eskom is simply too important to the country to fail, and we will not allow it to. National Treasury will work closely with the Department of Public Enterprises to strengthen governance and financial management at Eskom." Gigaba announced that a new Eskom board would be appointed before the end of November.

Eskom facing threats on multiple fronts, interim CEO acknowledges

Newest interim group CEO Sean Maritz has acknowledged that State utility Eskom is facing threats on multiple fronts in light of rapid changes to the global electricity landscape and the constrained outlook for domestic electricity sales. However, in a statement calling for "space and time to focus on stabilising the company", Maritz did not immediately outline his approach to dealing with serious allegations of corruption at Eskom. The corruption allegations, together with concerns that the utility has been "captured" by a powerful elite seeking to repurpose State-owned companies for narrow commercial gain, are undermining the highly indebted group's credibility and potentially placing its funding plan at risk. The power utility's debt stood at R355-billion at the end of March and is expected to peak at close to R500-billion.

Nersa releases dates and venues for upcoming Eskom hearings

The National Energy Regulator of South Africa (Nersa) has published the dates and venues for its upcoming public hearings into State-owned electricity utility Eskom's revenue application for the 2018/19 financial year. Eskom has applied for an allowable revenue of R219.5-billion, which will translate to a 19.9% average increase in electricity tariffs from April 1, 2018. The hearings will take place in all nine provinces between Monday, October 30 and Thursday, November 16.

Transmission and distribution

Eskom's new R174bn grid plan includes R18bn for IPP connections

State-owned electricity utility Eskom says all connection costs relating to 27 outstanding renewable-energy projects have been included in its latest Transmission Development Plan (TDP), which covers the ten-year period from 2018 to 2027.

Over the next ten years, Eskom expects to invest a total of R18-billion to facilitate the integration of additional renewables and conventional independent power producers (IPPs), as well as a further R119-billion for network expansions and for improving grid reliability. A significant portion of this investment will be directed towards the integration of the Medupi and Kusile coal-fired power stations, which are currently under construction in Limpopo and Mpumalanga respectively. However, there are also significant grid-strengthening projects planned or in execution in most other parts of the country. Together with refurbishment expenditure, the acquisition of land servitudes and spares, as well as the upgrade of the telecommunications systems associated with the country's power lines, the full capital expenditure associated with the latest TDP is estimated at R174.5-billion.

Parliamentary inquiry into State capture

Parliament's Public Enterprises Portfolio Committee started its inquiry into allegations of State capture at State-owned electricity utility Eskom on October 17. The inquiry follows revelations in leaked emails of influence peddling by the Gupta family to secure lucrative State contracts. Below are extracts from news articles published during the inquiry.

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Evidence of blatant corruption at Eskom unpacked at Parliament's inquiry

Parliament's Portfolio Committee on Public Enterprises has kicked off its inquiry into alleged State capture with a report revealing "overwhelming evidence of grand corruption", governance failure and a stream of irregularities at Eskom, South Africa's largest State-owned entity. Research professor Anton Eberhard, a former commissioner on the National Planning Commission, presented research from the Eskom Inquiry Reference Book he compiled with Catrina Godinho at the University of Cape Town's Graduate School of Business. Eberhard told Members of Parliament it was clear how the "Guptas had elbowed their way" into Eskom's lucrative coal contracts. The purchasing of coal makes up a major slice of Eskom's overall operating expenditure, which totals around R140-billion a year. Average coal costs are now close to R400/t, up from R190/t in 2011, the reference book records. This has had a crushing effect on the economy and on all South Africans. Eberhard said burgeoning costs of coal power, "arguably propelled by rent-seeking and corruption", had led to electricity tariffs increasing by more than 400% over the past decade, while electricity services had deteriorated. He said critical checks and balances had been undermined so that money could be funnelled out of South Africa.

Former CEO details communication breakdown at Eskom

Former Eskom CEO Brian Dames has revealed that he faced a breakdown in communication between the board and management, as well as death threats during his time at the State utility. He has also told Parliament's Portfolio Committee on Public Enterprises that there is "absolutely no need" for nuclear in South Africa and that the country cannot afford it. He said one of the first cases of meddling was when the board instructed Eskom's audit and risk committee to cancel the tender process for Eskom's auditors. He also spoke about the controversy over the tender for Koeberg's six steam generators. At the start of 2011, the Eskom board signed off on the Eskom executive procurement committee recommendation that Westinghouse should be awarded the bulk of the tender, with a smaller part apportioned to Areva, of France. Dames said the Westinghouse suppliers were already in the country to sign the contracts when Dames was told to cancel them. Dames said he had found a handwritten note on his desk, with minutes of the board tender committee, chaired by Collin Matjila.

Molefe's young wife boosted his pension payout

Former Eskom CEO Brian Molefe's marriage to Arethur Moagi in December 2016 boosted his pension payout, according to Sibusiso Luthuli, CEO of the Eskom Pension and Provident

Fund (EPPF). According to Luthuli, Eskom asked the EPPF in August 2016 to calculate Molefe's pension if they applied two rules where Eskom bought 13 additional years of service for Molefe and waived certain penalties once Molefe turned 50. They calculated that Molefe, who turned 50 in January 2017, would have received a R25.9-million pension payout. However, this was a theoretical calculation and made certain assumptions, including that Molefe's wife was five years younger than he was. When Eskom applied for the EPPF to process Molefe's pension payout in December 2016 using rule 28 and rule 21.4, the EPPF followed the process. When they received actual information regarding Molefe, they discovered his salary had increased to R5.6-million a year and that his wife – who he had just married – was far younger than the five-year assumption. The salary increase and age of Molefe's wife then resulted in his pension payout increasing to R30.1-million. Molefe requested that one-third of that amount (less tax) be paid to him in cash, while another two-thirds was retained to be paid as a monthly pension payout from February 2017 (backdated to January, when the pension payouts began), Luthuli said.

Tegeta prepayment made on day Optimum purchase price was due

A business rescue practitioner has told the Parliamentary inquiry into Eskom that the power utility agreed to pay Tegeta almost R600-million in advance for coal on the same day it became clear that the Gupta-affiliated company was short of that same sum to purchase the Optimum coal mine. Piers Marsden told Parliament's committee on public enterprises of the meeting at which Eskom agreed to the advance payment. Marsden said on April 11 last year, just two days before Tegeta was due to pay R2.15-billion for the Optimum coal mine, he was contacted by the former CEO of the Guptas's Oakbay company, Nazeem Howa. Howa said Tegeta was R600-million short and asked him to source funding from a consortium of banks, who declined. However, the money was paid on April 14. Marsden blew the whistle in July after watching an episode of Carte Blanche in which the now suspended acting CEO of Eskom Matshela Koko revealed that the company paid Tegeta R586-million in advance for coal supplies. He said he contacted the Hawks, or Directorate for Priority Crime Investigation, and deposed two affidavits.

Trillian raked in money for nothing, knew Nene and Gordhan would be fired, Eskom inquiry hears

A former top executive of Trillian Capital Partners has confirmed that the company did work for Eskom for an estimated R600-million without any formal contract with the power utility as well as earning R93-million from Transnet

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for no services rendered. Mosilo Mothep's testimony before Parliament's inquiry into State capture painted a picture of how the company, which is linked to the Gupta family, was placed in pole position for contracts with State-owned companies. Its closeness to government was such that, while working at the company, she received advance warning of the firing of first Nhlanhla Nene and then Pravin Gordhan as Finance Minister. She said she learnt that Nene would be replaced

six weeks before it happened. On the day she was informed, Trillian CEO Eric Wood emailed her a document outlining "the new initiatives the Minister was going to approve and the fees we could earn". Mothepu went on to say that she had heard, though she did not have confirmation of this, that Wood had used his knowledge of Nene's impending sacking to speculate on the rand and make millions.

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