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A MONTHLY REVIEW OF ENERGY-RELATED NEWS

SOUTH AFRICA ENERGY ROUNDUP

JULY 2018

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Creamer Media's South Africa Energy Roundup – July 2018, covering activities across South Africa for June 2018

ENERGY PLANNING

Energy Minister hints at big changes in electricity supply industry

Energy Minister Jeff Radebe has hinted at possible dramatic changes in the structure of South Africa's electricity supply industry, which is currently dominated by Eskom, a vertically integrated State-owned utility. During a recent stakeholder gathering, the Minister responded strongly in the affirmative to a question on whether government would consider allowing greater levels of competition in the sector to ensure that consumers benefited from the lowest prices possible. The question was posed by Wits Business School Energy Leadership Centre director Dr Rod Crompton, a former full-time regulator at the National Energy Regulator of South Africa and currently also a member of the Eskom board. Crompton stressed the economic importance of ensuring the lowest possible prices for all energy sources, including electricity, and suggested that competition would be an important instrument in addressing "artificially high prices we have for so many energy carriers". Radebe argued that competition was beginning to arise in the electricity generation sector as a result of government's independent power producer programmes, through which more than 6 000 MW of mostly renewable-energy capacity had already been procured. "But we cannot just end there, we need to move into the next process of ensuring that, at the end of the day, you and I as consumers of electricity get the benefits of lower tariffs. I believe that is what is going to be happening. So Eskom, prepare for the good times ahead when our people will be enjoying competition from the State, via Eskom, the private sector . . . as well as from nongrid generation."

Labour cannot be left behind in energy transition

Energy Minister Jeff Radebe has urged business to support government in ensuring that South Africa's energy transition is a "just" one for labour, especially those operating in the coal-mining sector. In an engagement with business leaders in Johannesburg, following a meeting of the Energy Ministers from the Brics bloc of Brazil, Russia, India, China and South Africa, Radebe said a collaborative effort was required to ensure that labour was not "left behind". A Cabinet-approved draft Integrated Resource Plan will be released "soon" for public comment ahead of final promulgation in August. The plan is expected to include higher levels of private participation in power generation, as well as to enlarge the role of renewable energy and natural gas in South Africa's electricity mix. However, Radebe stressed that, for the energy transition to succeed, it needed to be aligned with the National Development Plan's goals of eliminating poverty, raising employment and reducing inequality.

South Africa to align energy plans with SADC gas master plan

Energy Minister Jeff Radebe has promised greater alignment between South Africa's energy plans, including the new Integrated Resource Plan (IRP) for electricity, with a regional gas master plan, which is currently under development within the 16-country Southern African Development Community (SADC) bloc. The expanded integration of natural gas into Southern Africa's energy mix, as well as its industrial and petrochemicals sectors was strongly endorsed at the thirty-seventh summit of the SADC Heads of State and government, which took place in South Africa in August last year. By the next summit, which is scheduled for Windhoek, Namibia, in August 2018, a report must be produced outlining SADC's approach to the development of regional gas resources. Technical committees have met to define the terms of reference for an inter-State gas committee, which will oversee the development of the master plan. Radebe anticipates a phased integration of the plans, given that South Africa's updated IRP is due for release imminently and with work well advanced on the country's gas and liquid fuels master plans.

ESKOM GENERATION

Economic impact of power outages to be minimal – Minister

Industrial-action-induced power outages in early June are likely to have very little impact on the economy, Finance Minister Nhlanhla Nene has said. In 2015, when South Africa last had controlled power outages, economic output suffered significantly. Nene said, however, that the impact of the outages in early June should be minimal, as the blackouts were triggered by an impasse in the industrial space. Workers downed tools after Eskom refused a 15% wage offer and instead said that the utility is not in a position to offer salary adjustments. Eskom has subsequently increased its offer to 4.70% and later to 6.20%, while unions have lowered their demand to 9% for 2018 and 8.60% and 8.50% for 2019 and 2020. At the end of June, negotiations were ongoing.

RENEWABLE ENERGY

New-look renewables bid window to be released in November

South Africa will launch a fifth Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) bid window in November with the aim of procuring a further 1 800 MW of renewable energy from independent power producers (IPPs). Energy Minister Jeff Radebe has said the auction will include similar technologies to those included under the so-called 'Expedited Bid Window', which was launched in 2015 to allow IPPs a second chance to improve the competitiveness of projects bid, but not procured, during the first four REIPPPP bid windows. The Expedited Bid Window has not yet been concluded, despite the fact that the prices bid for solar photovoltaic and onshore wind fell to a new REIPPPP low of 62c/kWh. As with bid windows 3.5 and 4, the auction stalled after Eskom indicated in 2016 that, having returned to a surplus operating position, it was no longer willing to enter into power purchase agreements with renewables projects. Although the Expedited Bid Window has not officially been cancelled, it is now most likely to be superseded by Bid Window 5, which will proceed on the basis of revised procurement documents that will include far higher transformation, localisation and community upliftment requirements.

Meanwhile, the Department of Energy (DoE) has been urged to strike a balance between sustaining investor interest and responding to society's demand for increased socioeconomic benefits. Allen & Overy partner Jason van der Poel, who advised government when South Africa initiated its IPP bidding programmes in 2011 and who currently advises developers and lenders, believes the DoE should take care not to "entirely reinvent the wheel" when introducing the new co-benefit clauses. Van der Poel argues that the new bid contract documentation should seek to build on the successes of the REIPPPP. Nevertheless, changes will have to be made in light of growing demands for greater socioeconomic transformation spin-offs. The next REIPPPP bid window is likely to place particular emphasis on creating opportunities for black-owned IPPs, while including set-asides for near-project communities, as well as women-owned and youth-owned businesses. Local content and the role of black industrialists is also expected to feature strongly, notwithstanding the fact that the recent procurement hiatus resulted in the closure of about 14 manufacturing companies set up to supply components to the renewables projects. Government will also seek to reduce its guarantees, which have hitherto helped stimulate IPP investment.

South Africa ahead of renewable energy curve – adviser

Despite the South African renewables market being in its infancy in comparison to well-established markets, South Africa is ahead of the curve, says owner's engineer and lender's technical adviser K2 Management. This, K2 Management South Africa country director Hebren James explains, is owing to power purchase agreements in the country being underwritten by the National Treasury, which ensures backing in the event that payment delays for power are experienced. He explains that South Africa's leap in progress in integrating renewables into the energy mix, in part, can be attributed to the depth of political support, despite the disruption in recent years. The design of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) was instrumental in the success of the country's renewables market so far, James avers, adding that this creates an "appropriate environment to enable rolling competitive bid window procurements and maintained market confidence". The acceleration and roll-out of megawatts under the REIPPPP until 2015 has given South Africa a strong foundation to continue market development in the future, he adds.

Two wind projects reach financial close

A further two South African wind farms, with a combined investment value of R6.60-billion, have reached financial close following the signing of agreements for 27 renewable-energy projects on April 4. Global wind and solar company Mainstream Renewable Power has announced that construction of the 140 MW Kangnas Wind Farm, located near Springbok, in the Northern Cape, and the 110 MW Perdekraal East Wind Farm, located 80 km northeast of Ceres, in the Western Cape, should begin in June. A consortium comprising Concor and Conco has been appointed as construction contractor, while Siemens Gamesa Renewable Energy will supply and install the wind turbines. The projects are being developed with a consortium of equity partners including: African Rainbow Energy and Power; H1 Holdings; local community trusts; Lekela; Mainstream Renewable Power, along with a consortium of investors such as the International Finance Corporation and the Rockefeller Brothers Fund; as well as Old Mutual Life Assurance. The projects bring to 848 MW the total capacity of Mainstream-linked wind and solar photovoltaic projects developed in South Africa since the start of the Department of Energy's Renewable Energy Independent Power Producer Procurement Programme in 2011.

ESKOM TARIFFS AND FINANCES

Eskom approaches courts to have Nersa's 5.23% tariff decision set aside

State-owned electricity utility Eskom has approached the courts to have the National Energy Regulator of South Africa's (Nersa's) tariff determination for 2018/19 set aside. The action represents Eskom's first-ever legal challenge of the regulator's decision. It follows Nersa's decision to grant Eskom a 5.23% increase from April 1, which chairperson Jabu Mabuza says is "not cost reflective". The utility applied for an increase of 19.90% as part of a one-year revenue application. Nersa made its determination in December following nationwide public hearings, at which stakeholders argued strongly against Eskom receiving a double-digit hike, owing to growing evidence of corruption and inefficiency at the utility. However, following the appointment of a new board in January, Eskom questioned the basis for the decision, which was well below the 12% it felt should have been granted at a minimum. It also indicated that it would seek to engage with the regulator once it had fully studied the record of decision. Mabuza revealed that, while nonadversarial engagements had taken place, Eskom and Nersa had concurred that only the courts had the power to set aside what amounted to an administrative decision.

Meanwhile, the Energy Intensive User Group is concerned that Eskom's decision to approach the courts will increase uncertainty regarding electricity prices and that it will negatively impact on large power users.

Nersa grants Eskom R32.69bn in RCA application

The National Energy Regulator of South Africa (Nersa) has granted Eskom R32.69-billion following its regulatory clearing account (RCA) application for the multiyear price determination period from 2015 to 2017. The cash-strapped power utility applied for a 19.90% tariff hike to recoup R66.70-billion in additional revenue, which is opposed by civil society, businesses and the public at large. Eskom said that it has noted the energy regulator's decision and will give a detailed comment once the reasons for the decision have been shared.

Strategy for Eskom municipal debt discussed

Cooperative Governance and Traditional Affairs Minister Dr Zweli Mkhize has briefed the Standing Committee on Public Accounts about government's plans to resolve the challenge of debt owed by municipalities to power utility Eskom. The debt incurred by municipalities is for bulk electricity and has accumulated to more than R10-billion, while R139-billion is owed to municipalities by households for municipal services. Mkhize is chairperson of the Inter-Ministerial Task Team (IMTT) on electricity reticulation and distribution, which is working on solutions to resolve the perceived tension between Eskom and municipalities over the allocation of areas to be serviced as both parties supply electricity to different stakeholders within a municipality, based on licensing by the National Energy Regulator of South Africa. The solutions involve engaging Eskom regarding its credit control policy to curb the further escalation of the debt, as there are concerns from municipalities about the interest that the utility charges on the overdue amount; engaging Eskom over the tariffs it charges municipalities for bulk electricity and the interest charged on municipal debt; and improving governance in municipalities to ensure there is efficiency and that qualified officials manage financial functions, such as revenue collection. Municipalities and Eskom are further making headway in creating a conducive environment to reduce debt in the immediate term. These commitments relate to reducing penalties charged to municipalities for high electricity use, an increase from 15 to 30 days upon which an overdue amount may attract interest, changing the model for penalising municipalities for exceeding the allocated bulk electricity, and putting on hold the discontinuation of electricity supply to municipalities with debt. The IMTT advisory panel will report back on its work at the end of July.

ESKOM RESTRUCTURING

Calls for Eskom to be restructured

A South Africa-focused panel discussion at the Africa Energy Forum, in Mauritius, in June, concluded that while State-owned Eskom, as a dominant player in South Africa's energy sector, needed to be restructured, so too did the energy industry as a whole.

Panel moderator and publication house EE investigative editor Chris Yelland stated that Eskom was facing an existential crisis. "In terms of operational efficiency and management, it needs to adapt, otherwise it is doomed to go extinct. As it stands, it cannot carry on like this," he added. National Energy Regulator of South Africa chairperson Jacob Modise agreed that Eskom needs major restructuring. "Eskom as a monopoly has made South Africa's economy suffer. Its uneconomical decisions have affected the whole energy industry." Fieldstone

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Africa MD Ziyaad Sarang pointed out, however, that Eskom has been restructured in the past, but that new plans and ideologies have not materialised. "Politics and infrastructure cannot be divorced, and consequently have had conflicts of interest around power plant projects."

TRANSMISSION AND DISTRIBUTION

Eskom secures R1.35bn loan for grid

State-owned Eskom has entered into a R1.35-billion loan facility with German development bank KfW to support further investments in Eskom's transmission network in the Northern Cape to integrate renewable energy independent power producer projects. This funding will also allow the second phase of capacity and reliability improvements in the areas of Harrismith, in the Free State, and in the Greater East London region, in the Eastern Cape, to continue. These projects will largely enhance network reliability and load-growth. The signing of this loan facility is a positive contribution towards the successful execution of Eskom's R72-billion funding requirement for the 2018/19 financial year, and forms part of the first new funding that Eskom intends on signing with developing finance institutions in this financial year.

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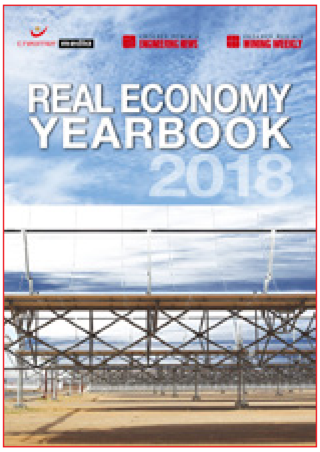

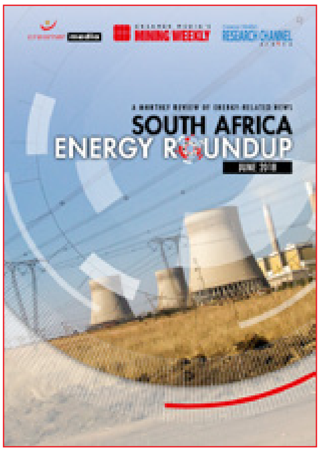

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