Creamer Media's Mining Weekly
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A MONTHLY REVIEW OF ENERGY-RELATED NEWS

SOUTH AFRICA ENERGY ROUNDUP

AUGUST 2018

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

ENERGY PLANNING

Cabinet's failure to consider IRP threatens mid-August deadline

Cabinet did not deliberate on the Integrated Resource Plan (IRP) at its July 4 meeting, potentially threatening Energy Minister Jeff Radebe's self-imposed mid-August deadline for finalising the long-awaited update to the electricity generation plan. Cabinet will resume its normal meeting cycle only in August, owing to the midyear Cabinet lekgotla. Radebe reiterated his aspiration to have the IRP finalised by mid-August at a gathering with business leaders in Johannesburg on June 29. He told those present that a "Cabinet-approved" IRP would be released "soon" for public comment ahead of final promulgation in August. However, public comment periods are typically never shorter than 30 days and sufficient time is usually left for departments to consider the comments and to make adjustments to the policy ahead of final Cabinet approval.

Life After Coal campaign demands IRP take water costs into account

A report from the Life After Coal campaign calls for uncounted costs to South Africa's water resources to be accounted for in the Integrated Resource Plan (IRP). Mining coal and burning it in power stations uses large amounts of water and pollutes water as well, imposing massive but uncounted costs on society and particularly on poor people who live in the coal mining regions, it argues. The Life After Coal campaign is run by the Centre for Environmental Rights, groundWork and Earthlife Africa, together with Greenpeace Africa.

The partners have indicated that they will challenge, in court, an IRP that fails to adequately take the costs of coal into account. The report, titled 'Water Impacts and Externalities of Coal Power', was compiled by the Life After Coal campaign from a range of existing research on the cost of the impacts of coal mining and burning on water resources. The draft IRP 2016 provides cost estimates for different energy technologies, but does not include externalities of critical importance for electricity planning. This means that the costs of coal-fired power generation are significantly undercounted. South Africa is an arid country and cannot afford this, states Life After Coal spokesperson Saul Roux.

ESKOM TARIFFS AND FINANCES

Eskom secures R33bn loan from China Development Bank

Nonprofit organisation Greenpeace has expressed its disappointment at China choosing to support "dirty, dead-end coal" in South Africa, especially since China has an emerging and strengthening leadership on climate change. This comment follows after State-owned power utility Eskom signed a R33-billion, or \$2.5-billion, loan agreement with the China Development Bank to form part of funding for Eskom's build programme, with emphasis on the Kusile power station. Eskom can draw upon the facility for five years. Greenpeace suggests that the last two units of Kusile not be completed and that the money should rather be redirected to renewable-energy. Eskom CE Phakamani Hadebe says the China Development Bank remains a valued partner and a key contributor to the progress achieved by Eskom in executing the current build programme. The successful conclusion of this facility brings Eskom in line with the company's commitment to imminently secure 62% of the 2018/19 financial year's funding requirement.

Prior to concluding the agreement, Hadebe had expressed confidence that Eskom would be able to raise the R72-billion it required for the 2019 financial year, despite having received a qualified audit. The R72-billion being sought represents a material increase from the R57-billion raised during the 2018 financial year, of which R43-billion was secured only in the past three months of the financial year to March 31, 2018. Hadebe offered few details at the group's 2018 results presentation as to how the funding would be secured, saying only that, subsequent to recent governance actions, lenders had expressed an appetite for Eskom debt. In addition, a previous cash-holding buffer of R20-billion had been relaxed to R5-billion.

Eskom uncovers R19bn in irregular expenditure, posts R2.3bn loss

State power utility Eskom has uncovered R19-billion in irregular expenditure going as far back as 2012, its chairperson Jabu Mabuza said in July at the release of the company's results for the year ended March 31. The entity also reported a net loss after tax of R2.3-billion for the year, compared with a R900-million profit for 2017. Mabuza said the company, grappling with the fallout after several senior executives were implicated in corruption, remained focused on finalising investigations into suspended officials, while also improving corporate governance. He said while Eskom had experienced a tumultuous year, this was not due to operational issues.

ESKOM CORPORATE

Eskom leaders hint at need for independent system operator

Cash-strapped electricity utility Eskom is considering far-reaching changes to its business model as part of an in-depth review, being undertaken ahead of the finalisation of a new corporate plan. Chairperson Jabu Mabuza has flagged that the new corporate plan, which is scheduled for finalisation in September, will be significantly different from past plans, describing it as "a total review of the entire business model". Without providing detail, Mabuza indicated that the operating model could affect Eskom's vertically integrated structure, which currently incorporates generation, transmission, system operations and distribution. The review will address every component of the group's balance sheet and income statement. Eskom will also have to address the cost of primary energy, as well as the fact that its 48 000-strong workforce was estimated to be one-third too large for the nature of its operations and its output, which has remained flat for more than ten years. Group executive for generation Thava Govender has hinted that an independent system operator may be required to enable South Africa and Eskom to navigate the energy transition.

Eskom management strengthened with COO appointment

The board of Eskom has appointed Jan Oberholzer COO. The board, which was appointed in January, was mandated to resolve and take decisions to address the immediate challenges facing Eskom. Key to this mandate was to bring stability to the executive leadership structures of Eskom through, besides others, prioritising the appointment of a permanent CEO and CFO. In the process of identifying suitable candidates, the board also assessed the appropriateness of the current functional structure, given the enormity of the current operational and financial challenges faced by Eskom. As a result, it concluded that the size, functional diversity and complexity of Eskom warrants a three-person executive team comprising a CEO, a CFO and a COO. Oberholzer has 38 years of working experience, of which 24 were at Eskom where he held various positions, including that of COO of the distribution division. Most recently, he successfully led the improvement of a number of hydropower plants in Zambia.

RENEWABLE ENERGY

BioTherm reaches financial close on four renewables projects

African renewable-energy development platform and power producer BioTherm Energy has reached financial close on a 284 MW portfolio of wind and solar projects in South Africa as part of the fourth round of the South African Renewable Energy Independent Power Producer Procurement Programme. The four projects, on which construction will start shortly, are estimated to be fully operational by 2020. The total cost for the portfolio of projects, which includes the 120 MW Golden Valley wind project, the 32 MW Excelsior wind project, the 86 MW Konkoonsies II solar photovoltaic (PV) project and the 45 MW Aggeneys solar PV project, is about $500-million. Goldwind has been appointed the engineering, procurement and construction (EPC) contractor for the Excelsior and Golden Valley projects, which are expected to reach commercial operation by the fourth quarter of 2019 and the fourth quarter of 2020, respectively. ET Solutions has been appointed the EPC contractor for the Aggeneys and Konkoonsies II projects, which are expected to reach commercial operation in the third quarter of 2019 and the first quarter of 2020, respectively.

Cape Town pushes ahead with plans for more renewable-energy

The City of Cape Town is working hard to meet its target for renewable-energy to make up 20% of total energy used in the city by 2020. It is also following international blueprints and plans to implement more renewable-energy projects, says City of Cape Town energy executive director Kadri Nassiep. The city is ramping up various initiatives, including embedded generation, but is hampered by regulatory issues. "Renewable energy penetration is on the increase but is not as fast as we would like it to be. The independent power producer (IPP) procurement process

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has been fraught with regulatory and policy issues. Cape Town has abundant wind and solar photovoltaic resources, but we need to overcome regulatory and political barriers to raise our numbers significantly," he says. IPP procurement is currently an exclusive mandate of Eskom and requires Ministerial approval.

Globeleq acquires Brookfield's South African renewables portfolio

Globeleq has entered into an agreement with an affiliate of Brookfield Asset Management to acquire Brookfield's interest in its South African renewable-energy portfolio. The agreement is subject to various closing conditions and, once fulfilled, will give Globeleq a majority shareholding in six renewable projects totalling 178 MW, as well as ownership of Brookfield's South African asset management company. The six projects include the 11 MW Aries, 66 MW Boshoff, 11 MW Konkoonsies, 31 MW Soutpan and 33 MW Witkop solar projects, as well as the 27 MW Klipheuwel wind farm. The projects were built under rounds one and two of the Renewable Energy Independent Power Producer Procurement Programme and reached commercial operations in 2014. All plants have a 20-year power purchase agreement with State-owned Eskom.

Wind industry calls for standard metrics for employment in the energy sector

The wind industry has called for a standardised metric to determine employment in the energy sector. Currently, all South African coal power-related employment studies use the metric employees or jobs as opposed to the more internationally applied metric person-years, which is used to report national renewable-energy employment, says the South African Wind Energy Association (SAWEA). A Meridian Economics study commissioned by SAWEA suggests that the term 'jobs' used by the coal industry could be misleading, as a job could be anything from 1 day to 20 years. "Simply counting a job can be meaningless. Standardising the metric job-year would assist more meaningful employment comparison between the two sectors," says SAWEA.

The SAWEA power sector transition employment briefing paper says it is becoming standard to report employment in person-years locally and internationally. In South Africa, Energy Minister Jeff Radebe applies the contemporary metric, job-years and full-time equivalent rather than "the old-fashioned and vague" jobs metric when referring to the employment opportunities being created by the renewable-energy sector. Radebe recently explained in Parliament that a job-year is equivalent to a full-time employment opportunity for one person for one year.

Wind industry warned of tough road ahead

A leading economist has warned the wind energy industry that it will need to become even more competitive and lower the price of wind power in a stagnant and increasingly challenging South African energy sector. "Our power sector is bankrupt. Whether we like it or not, this will impact the wind industry," says Meridian Economics MD Grové Steyn. He states that the "honeymoon for wind and renewables is well and truly over". "It's clear that renewables cannot escape the stresses and strains playing out in the energy sector and the economy more broadly," Steyn adds.

Energy demand in the country is stagnant and has been for years. The wind energy sector also relies on Eskom to bring its product to the market, exposing the industry to Eskom risk.

ENERGY STORAGE

Battery storage to benefit businesses, municipalities

Battery storage will have a significant and firm impact on the uptake of renewable-energy in South Africa, enabling users, whether in the retail or industrial space, to leverage some of the value that solar energy can create, says SOLA Future Energy energy storage services head Daniel Goldstuck. Speaking during a panel discussion at the PowerGen conference, held in July, he noted that by combining solar photovoltaic (PV) systems and battery storage, the dependency on the national electricity grid can be reduced by between 60% and 70%. University of the Western Cape South African Institute of Advanced Materials Chemistry deputy director Bernard Jan Bladergroen added that battery storage could also assist municipalities in deriving greater benefits from renewable-energy. "Municipalities wouldn't need to go for just one type of storage or renewable-energy, but would be able to integrate several different options to effectively create the most cost effective solution for their needs".

OTHER

Saudi Arabia pledges to invest R133bn in South African energy sector

President Cyril Ramaphosa's ambitious plan to attract $100-billion to kick start the country's struggling economy got a major boost, when Saudi Arabia committed to invest $10-billion (about R133-billion) in the country. This is expected to be invested in the energy and power creation sectors. South Africa imports an estimated 47% of its oil from Saudi Arabia, and Pretoria regards the country as a strategic partner in the Middle East. Total trade amounted to more than R56-billion in 2017. The country is also a large investor in South Africa, especially in the area of renewable-energy.

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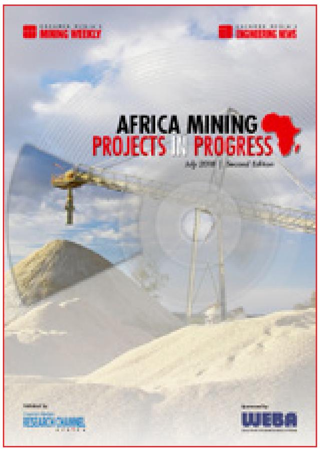

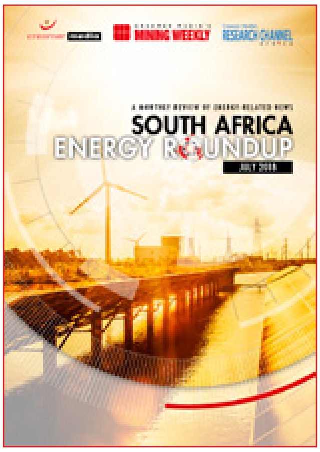

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