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SOUTH AFRICA ENERGY ROUNDUP

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CREAMER MEDIA'S ENGINEERING NEWS

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ESKOM FINANCES AND CORPORATE

Eskom appoints Mandla Maleka interim group treasurer

Mandla Maleka has been appointed State-owned power utility Eskom interim group treasurer following the end of Andre Pillay's tenure with the company on August 30. Maleka joined Eskom in 1999 after serving as a director in the National Treasury budget office. He is currently the company's chief economist and head of portfolio management and foreign exchange (forex) trading, largely responsible for the hedging of all Eskom's forex derivatives and commodities. He also provided "critical economic input to the wider group".

Eskom separation to take between three and five years

Debt-laden Eskom has said it will take as long as three to five years to comply with government's plan to split the company into three separate units. President Cyril Ramaphosa said in February that the company would be divided into generation, transmission and distribution units to make it more manageable. "Eskom ran out of cash and came close to complete collapse on multiple occasions in 2019," executive chairperson and interim CEO Jabu Mabuza said in a presentation made in August to the company's top 500 managers. It was seen, and reported on, by newswire Bloomberg. Under the plan presented by Mabuza, Eskom would split into the three units at an operating level in 12 to 18 months. The legal separation would occur in two to four years and the transmission unit would become a standalone State-owned company within three to five years. Generation and distribution would remain under an Eskom holding company. He also said that the company would cut costs by R33-billion a year over five years and is targeting earnings before income tax, depreciation and amortisation of R79.3-billion a year, compared with R31.6-billion in the year ended March 31. It would also seek to develop more renewable power and raise the amount of its plant available to generate power at any given time to an average of 78% rather than the below 70% it saw in the past financial year. Among the company's woes was a 30% increase in operating expenditure over the past five years to R151-billion a year.

Eskom shoots down Treasury's plant sale plan

Troubled State-owned Eskom has rejected proposals by the National Treasury that it sell some plants to reduce its debt. The sale of the generating facilities could raise R450-billion, Treasury said in a policy paper published on August 27. That is R10-billion more than the utility owes. Parliament's Public Accounts Committee has asked Eskom executives about selling the unfinished Kusile power station, in Mpumalanga, but has reportedly been told the power company does not believe that the sale of Kusile or any of the assets is the way to go. Kusile is expected to be completed by 2023 at a cost of R161-billion, and Medupi, in Limpopo, next year or in 2021 at a cost of R146-billion.

EIUG calls for urgent overhaul of industrial power tariffs

The Energy Intensive Users Group of Southern Africa (EIUG) is calling for urgent consideration to be given to the development of industrial tariffs for large power users, in light of the threat being posed to domestic mining and industrial firms by steeply rising electricity tariffs. In a statement released in response to the R21-billion loss posted by State-owned power utility Eskom for 2019, the organisation said in early August that the utility's financial performance was of "grave concern" and acknowledged that stabilising the State-owned company would require "trade-offs from all stakeholders". Nevertheless, it warned that ongoing above-inflation tariff increases were threatening the survival of large power users, some of which were "already beyond the tipping point". The EIUG claimed that about 47 furnaces – representing potential power demand of about 1 200 MW and potential employment for about 12 400 people – were standing idle across the country. The organisation insisted that such a tariff regime would not equate to a subsidy, but rather to the removal of cross-subsidies currently embedded in industrial tariffs that were increasing them above cost-reflective levels.

Former Eskom executives seek South Africa's toughest CEO job

The CEO role at power utility Eskom, considered the most challenging job in corporate South Africa, is attracting interest from people who know how difficult turning around the debt-ridden State utility will be. Andy Calitz, the former CEO of LNG Canada, who started his career as an electrical engineer at Eskom and later held various senior posts at Royal Dutch Shell, has confirmed to newswire Bloomberg that he has applied for the job. Dan Marokane, Eskom's former head of group capital, has also reportedly applied. Business leaders reportedly suggested to Eskom's board that former CEOs Brian Dames and Jacob Maroga also be considered for the post. Phakamani Hadebe stepped down as head of the utility at the end of July, and chairperson Jabu Mabuza has temporarily taken over the position until a permanent appointment is made.

Minister sees unions backing Eskom rescue

Labour unions that oppose government's plans to split power utility Eskom into three units will ultimately have to support the reforms, according to Mineral Resources and Energy Minister Gwede Mantashe. "The unions are going to get behind the plan," Mantashe said in an interview with Bloomberg TV. "We have a duty to do what is right for the country, more than what is just right for unions and workers, and we must do what can save the economy, what can save the country." Mantashe is a former secretary general of the National Union of Mineworkers, which, along with the National Union of Metalworkers of South Africa, represent the bulk of the utility's 46 665 workers.

'Too big to fail' makes Eskom debt a good bet in low-yield world

South Africa's pledge not to let power utility Eskom fail is enticing yield-starved investors to the company's dollar debt. Bondholders from New York to Seoul say they are happy to hold onto the power company's securities – and in some cases add to their holdings – because of their extra return relative to the country's sovereign debt. Government's assurance that it will not let the company default, effectively guaranteeing the debt, enables investors to play that spread without too much risk even though Eskom is not generating enough cash to service its own liabilities. Yields on Eskom's unsecured 2028 dollar bonds have dropped 250 basis points this year even after it reported a record loss in July. That is still 250 basis points more than South Africa's ten-year sovereign debt.

COAL

Greenpeace says Mpumalanga a sulphur dioxide emissions hot spot

Environmental organisation Greenpeace's India branch says Kriel, in Mpumalanga, is the second-largest global hot spot for sulphur dioxide emissions, mostly owing to the 12 coal-fired power stations in the province. The branch commissioned a study using the US's National Aeronautics and Space Administration satellites to track anthropogenic sulphur dioxide emissions hot spots around the world. A Greenpeace Africa analysis in October last year, which also used satellite data, had also showed that Mpumalanga was the world's largest nitrogen dioxide air pollution hotspot across six continents. "South Africa's air is filthy. We already know that Mpumalanga is among the worst nitrogen dioxide pollution hot spots in the world. Now we know that Mpumalanga also has the second-largest sulphur dioxide emissions hot spot in the world, second to only the Norilsk smelter complex, in Russia. We cannot afford to waste any more time by delaying industry compliance with air quality legislation or the transition to renewable energy," says Greenpeace Africa senior climate and energy campaign manager Melita Steele. Sulphur dioxide is a toxic pollutant that often results in lower respiratory tract infections, a higher risk of strokes and an increased risk of death from diabetes, when humans are exposed to it. Sulphur dioxide emissions also contribute to the secondary formation of fine particulate matter, which is also a dangerous pollutant.

Medupi station's last unit synchronised to the grid

State-owned electricity utility Eskom says its Medupi coal-fired power station, in Limpopo, has produced first power out of its last unit. Unit 1 attained 190 MW on August 27, making it the last of Medupi's six units to be synchronised to the national grid. Unit 1 will start generating and delivering electricity intermittently into the grid over several months during a testing and optimisation phase to ensure the country has stable supply. The testing and optimisation of the unit will result in it being able to generate full power of 800 MW, taking it a step closer to being commercially operational, which generally occurs within six to nine months after first synchronisation.

NUCLEAR

South Africa to take 'affordable' approach to nuclear – Minister

South Africa will consider adding nuclear power capacity in an affordable way as part of its long-term plans, Mineral Resources and Energy Minister Gwede Mantashe has said. President Cyril Ramaphosa put on hold plans by his predecessor Jacob Zuma for a large nuclear project last year, owing to fears it could collapse the economy, but senior officials have since indicated that plans for new nuclear have not been shelved entirely. Mantashe told Parliament in July that South Africa should start planning for new nuclear to come on line after 2045. Investors have tended to worry when South African officials express support for nuclear because of the country's severe fiscal constraints, which endanger its last investment-grade credit rating. Energy experts say adding new nuclear is more expensive than other power options. Mantashe has not given a timeframe for any nuclear new build, saying government's energy plan needs to be approved first.

RENEWABLE ENERGY

SOLA secures R400m to fund commercial, industrial solar PV projects

Renewable-energy solutions provider SOLA Group has secured R400-million to build commercial and industrial solar photovoltaic (PV) facilities across Southern Africa. The fund will enable 40 MW of solar PV projects to be built without capital expenditure by electricity off-takers. SOLA Group partnered with African Infrastructure Investment Managers and Nedbank Energy Finance to provide solar PV solutions for businesses that are in need of electricity security. SOLA Group has signed 15 MW of solar PV projects through the fund, including several breweries and other industrial facilities around South Africa. Through the assistance of the projects, consumers pay for their clean energy through a tariff that is typically 20% lower than that of State-owned Eskom or their municipal provider's rates.

TRANSMISSION AND DISTRIBUTION

City of Joburg upgrades substation

The City of Johannesburg has relaunched the Wilro Park substation after it underwent a R131-million refurbishment. Wilro Park substation supplies about 5 000 domestic and business customers in the

Roodepoort area and the areas of Wilro Park, Princess Crossing, Princess, Roodekrans, Helderkruin, and Breaunanda will benefit directly from this upgrade. The upgrade further allows for any future service connections that are made from the substation to be made without compromising the stability of the grid.

OIL AND GAS

Portfolio Committee warns of imminent energy crisis in South Africa

The Portfolio Committee on Mineral Resources and Energy has warned of an imminent energy crisis in South Africa, if nothing is done, as a matter of urgency, to turn things around. This is after the Central Energy Fund (CEF) briefed the committee in late August about the crisis facing national oil company PetroSA with regard to the expected depletion of indigenous feedstock by 2020. Committee chairperson Sahlulele Luzipo said he was "concerned about the fact that a multilayered board could be responsible for slow decision-making", which he noted was "not a sustainable business practice" in a competitive environment. It is against this backdrop that the committee believes that PetroSA should be empowered to become a strategic standalone oil and gas company. Another issue of great concern to the committee with regard to the CEF and its subsidiaries, as well as other entities under the Department of Mineral Resources and Energy, is that many senior officials continue to be appointed in an acting capacity. "This is dangerous for the country because there is an extent to which a person in an acting capacity can take decisive decisions," Luzipho noted, adding that the exercise is also costly.

US provides $40m for Renergen's South African gas project

Emerging liquefied natural gas (LNG) and helium producer Renergen has signed a $40-million loan agreement with the Overseas Private Investment Corporation, marking a significant milestone for the company, which recently listed on the ASX. The loan now provides Renergen with access to the required capital to build the first phase of its Virginia gas project, in the Free State, thereby providing greater certainty of the project's anticipated production in the first half of 2021. The bulk of the funds, $18-million, will be spent on ordering the helium and LNG liquefiers. The balance of the funds will be drawn down in early 2020 and will be allocated for the construction of the gas gathering network, as well as the balance of plant and utilities to support the operation.

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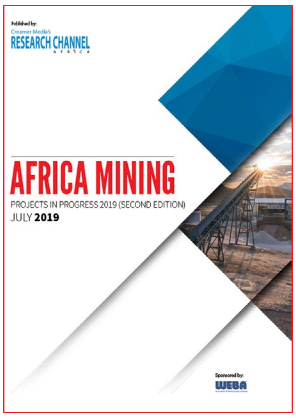

This report has been compiled by Creamer Media's Research Unit, based in Johannesburg, South Africa. It forms part of a monthly series that is available for purchase, as well as free of charge to subscribers to Creamer Media's Research Channel Africa and Mining Weekly Research. The information has been drawn from sources believed to be reliable, but no warranty is made on the accuracy of such information. The report covers activities across South Africa for August 2019.

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