A MONTHLY REVIEW OF ENERGY-RELATED NEWS

SOUTH AFRICA ENERGY ROUNDUP

AUGUST 2020

Published by:

Creamer Media's RESEARCH CHANNEL AFRICA

creamer media

ESKOM CORPORATE AND FINANCES

ANC suggests pension funds take some Eskom assets

The Economic Transformation Committee of South Africa's ruling African National Congress (ANC) has suggested that pension funds take control of some of the assets of the indebted State-owned power utility Eskom. The proposal to transfer parts of Eskom Holdings into non-State hands was made in a discussion document dated July 8, which considered responses to the coronavirus-induced economic slump. The ANC's labour union allies oppose privatisation of Eskom assets. "There is a need for continued support for Eskom to overcome its immediate financial and technical challenges and to ensure reliable electricity supply," the committee said in the document. "A solution needs to be found to Eskom's debt problem, including the possibility of pension funds being mobilised to take over certain restructured Eskom assets."

Eskom to cancel fuel oil supply contract

State-owned power utility Eskom has started a process to cancel the five-year fuel oil supply contract awarded to Econ Oil & Energy during 2019. The parastatal says a review of the circumstances leading to the tender being awarded to Econ revealed serious irregularities in the process, including inflated prices charged to Eskom when lower priced alternatives were evident.

Ian McRae, who oversaw Eskom's 'electricity for all' policy, dies

The much respected former CEO of State-owned power utility Eskom, Ian McRae, died on July 12, 2020. He was 90 years old. Born in Germiston on September 24, 1929, Ian Campbell McRae started his career as an apprentice fitter and turner at Eskom. After qualifying he went on to obtain a degree in Mechanical Engineering. He rose through the ranks at Eskom, primarily in power stations and engineering until he was appointed as CEO in 1985. At this most challenging time in South African history, McRae worked tirelessly to promote the benefits of electricity as a driver of social and economic development. His vision of 'electricity for all' and the interconnected 'Southern African grid' became an inspiration for utilities across the globe, as well as serving as a rallying call for many South Africans. After retiring from Eskom in 1994 he was appointed as the CEO tasked to establish the National Electricity Regulator.

Move Eskom debt to State balance sheet, says ex-Goldman head

South Africa can fix the balance sheet of its lossmaking power utility, Eskom, by transferring its guaranteed debt to government's balance sheet, according to former CEO of Goldman Sachs Group in sub-Saharan Africa Colin Coleman. Eskom has received R133-billion in bailouts since 2008 and is due to get another R112-billion over the next three years. Instead of sinking that money into a hole, the utility's guaranteed debt should be moved onto government's books after negotiating for better terms with bondholders, says Coleman, now a senior fellow at Yale University's Jackson Institute for Global Affairs. That will close the credit spread between the cost of borrowing for government and Eskom, which currently costs R3.5-billion a year. A debt-for-equity swap could then be arranged to leave the State-owned company with debt of R90-billion "with which it can stand on its own, and which will support an attractive refinancing of the remaining debt stock".

Tariff sets to rise after Eskom wins Nersa battle over R69bn equity injection

In a scathing judgment made on July 28, the court declared the National Energy Regulator of South Africa's (Nersa's) decision to deduct a R69-billion equity injection into Eskom from its allowable revenue for the period 2019/20 to 2021/22 as illegal and has instructed that the full amount be added back to the utility's allowable revenue over the next three years. Given that the injection comprised three R23-billion-a-year tranches and that Eskom was already into the second year of a three-year tariff determination, Judge Fayeeza Kathree-Setiloane said that the first R23-billion should be added during the 2021/22 financial year. This would immediately increase the 2021/22 tariff from the 116.72c/kWh approved on March 7, 2019, as part of the fourth multiyear tariff determination, to 128.24c/kWh. Under Nersa's original determination, tariffs were meant to increase by only 5.22% on April 1, 2021. Kathree-Setiloane's ruling means that the tariff will now increase by about 15% on that date, unless the remedy contained in the 33-page judgment is appealed by Nersa.

ESKOM GENERATION

Eskom to seek authorisation to proceed with repurposing of four coal stations

State-owned electricity producer Eskom aims, within the coming months, to seek authorisation from its board and government to initiate a formal bidding process to repurpose and repower the Camden, Komati, Grootvlei and Hendrina coal-fired power stations using lower-carbon generation technologies. All units at the four stations, which currently employ about 1 530 people directly, are scheduled to stop producing electricity between 2021 and 2028. Should board and shareholder approval be received, Eskom will issue a request for proposals (RFP) for the repowering and repurposing of the stations. The RFP will be guided, in part, by responses to four requests for information (RFIs) issued to original-equipment manufacturers earlier this year by the generation division for specific conversion options, ranging from gas and photovoltaic systems, to biomass and battery storage. The bid documentation is also likely to be influenced by responses to an expression of interest (EoI) process being overseen in parallel by Eskom Research Testing & Development, which is assessing prospects for broader energy and nonenergy solutions that have the potential to create sustainable livelihoods for those communities that have formerly relied on coal mining and electricity generation. Of the four Mpumalanga stations, only Hendrina still has a tied coal mine – the Optimum colliery. However, the plant is receiving all its coal by road after the mine entered business rescue. The closing date for responses to the Camden, Komati, Grootvlei and Hendrina RFIs was June 5 and Eskom extended the closing date for responses to the EoI to July 23, partly to accommodate the disruption caused by South Africa's Covid-19 lockdown.

INDEPENDENT POWER PRODUCERS

Evaluation of short-term power bids being hamstrung by Covid-19

Progress on Eskom's proposed Short-Term Power Purchase Programme, initiated to help limit load-shedding while the State-owned utility implements a so-called reliability maintenance programme across its coal fleet over the coming 18 months, is being seriously impeded by South Africa's Covid-19 lockdown. The bidding deadline for the programme, which is led by Eskom's GM for energy planning and market development, Callie Fabricius, was initially extended from April 30 to May 11. It was then further extended to July 2 at the request of the National Treasury. The extension also arose after Eskom received a slew of enquiries from potential bidders, which caused it to make changes to the initial contract timeframe, as well as the nature of the entities that were eligible to bid.

When the request for proposals was released on March 23, Eskom indicated that it would consider entering into power purchase agreements (PPAs) only with counterparties able to demonstrate that their facilities could meet a commercial operation date of no later than December 31, 2020. GM for risk and sustainability Andrew Etzinger tells *Engineering News* that, owing to the delays, Eskom will now enter into PPAs with facilities able to meet a commercial operation date on or before February 28, 2021. Successful bidders would be entitled to sell energy to Eskom for a maximum period of 36 months, ending either 36 months from the start of commercial operation, or on February 28, 2024, at the latest.

Gold miner approves 10 MW solar plant

The board of gold mining company Pan African Resources has approved the development of a 10 MW solar photovoltaic project at the Elikhulu gold-from-tailings operation in Evander, Mpumalanga. The approval for the solar project follows the finalisation of a positive bankable feasibility study undertaken by independent consultants Arup. The project will initially provide for up to 30% of Elikhulu's yearly power requirements and aims to reduce the operation's dependency on the national grid, while also reducing exposure to above inflation yearly power cost increases, the company, headed by CEO Cobus Loots states.

Hyprop expands national solar project

Real estate investment trust Hyprop is set to decrease its carbon footprint further, with the landlord expanding its solar project across 66% of its South African shopping mall portfolio. The roll-out of solar throughout most of the portfolio is expected to mitigate the risk of continuous, rising electricity costs for the company. Hyprop's first implementation at Clearwater Mall proved successful, and generates 2.91 MW of power at peak. The company is also busy with installations at Rosebank Mall, Woodlands, Atterbury Value Mart, Hyde Park Corner and The Glen. All projects are rolled out by Solareff at a budgeted cost of R68.77-million. Hyprop expects this to result in yearly energy cost savings of R15.9-million across the portfolio.

ICE power plants offer 'least regret' solution for South Africa, says Wärtsilä

Modular internal combustion engine (ICE) power plants offer the "least regret" answer to South Africa's power crisis, Wärtsilä South Africa business development manager Wayne Glossop said during a July 28 virtual media roundtable discussion. He noted that ICE power plants were also a solution that should be considered under the Risk Mitigation Power Purchase Programme (RMPPP). The RMPPP request for proposals is scheduled to be issued by the Department of Mineral Resources and Energy by about early August. Glossop stated that the country should consider its options and glean an understanding of the country's power system challenges and how best to address these through the RMPPP.

Majority of IPPs said to agree to refinancing initiative

A representative from the Department of Mineral Resources and Energy's (DMRE's) Independent Power Producer Office (IPPO) has confirmed that 70% of South Africa's 64 IPPs have indicated they will participate in the department's renewable-energy project refinancing initiative. DMRE infrastructure finance head for the IPP Office Elsa Strydom notes that the refinancing initiative of the department bodes well considering that renewable-energy projects can help with South Africa's economic recovery. She expressed confidence, during a virtual seminar hosted by Rand Merchant Bank (RMB) on July 10 in the run-up to the Windaba conference in November, that the refinancing of most projects would have progressed well by September.

The refinancing initiative came about when the Ministers of Mineral Resources and Energy, and Public Enterprises met with IPPs and lenders in September last year to determine in which way the Bid Window 1 to 3.5 IPPs that are in operation could contribute to lowering the wholesale price of electricity. A task team was then established for engagements with all relevant stakeholders, comprising nominated representatives from the Banking Association of Southern Africa, the DMRE and the IPPO. The task team concluded that the most feasible option to reduce the contribution of the Bid Window 1 to 3.5 projects to the wholesale electricity price, was to undertake a refinancing initiative — as such an approach is aligned with project finance principles and will not unduly affect market confidence or undermine the procurement process.

Mantashe agrees to creation of engagement forum with renewables stakeholders

Mineral Resources and Energy Minister Gwede Mantashe met with renewable-energy stakeholders on July 16 to build trust, improve communication and reduce obstacles to the roll-out of renewable energy in South Africa. In a virtual meeting, the Minister urged stakeholders to move beyond "polemics and anarchy" and to offer solutions to the current constraints facing the electricity supply industry. He again emphasised that government's approach to the energy transition would be to embrace an energy mix that was open to various generation technologies, as well as to one that was framed by the need for a "just transition". "A just transition cannot mean jumping like a pendulum from one extreme to another," he said, arguing that the shift from coal to renewables needed to be systematic and supportive of vulnerable workers and communities in coal regions.

Renewables zones in Emalahleni and Klerksdorp part of just-transition vision – Creecy

Environment, Forestry and Fisheries Minister Barbara Creecy has made a direct link between government's proposed designation of Renewable Energy Development Zones (REDZs) in the coal and gold mining towns of Emalahleni and Klerksdorp respectively, and South Africa's just transition to a low-carbon, nature-positive economy.

Creecy says the proposed promulgation of three new REDZs will fast-track the development of renewable-energy projects in line with the Integrated Resource Plan 2019. Besides Emalahleni, in Mpumalanga, and Klerksdorp, in the North West, a recently released Gazette notice indicated that government also proposed declaring Beaufort West, in the Western Cape, as a REDZ, bringing the total number of REDZs proclaimed nationally to 11. The eight areas already designated as REDZs are Overberg, Komsberg, Cookhouse, Stormberg, Kimberley, Vryburg, Upington and Springbok. Renewable-energy projects located within the boundaries of a REDZ are beneficiaries of streamlined environmental authorisation processes.

ELECTRIFICATION

Concern raised about R1.5bn cut to electrification budget

Concern continues to be raised over the fact that the biggest cut made to the Department of Minerals Resources and Energy's (DMRE's) 2020/21 budget is for the electrification of poor households, especially in those provinces with the biggest connection backlogs.

The cuts, which were signalled in early July, were confirmed in a Budget Vote speech delivered on July 21 by Tourism Minister Mmamoloko Kubayi-Ngubane on behalf of Mineral Resources and Energy Minister Gwede Mantashe, who was in hospital for Covid-19. She said the main appropriation for the DMRE budget had been reduced by R1.55-billion, from R9.34-billion to R7.76-billion, with the R1-billion cut to the Integrated National Electrification Programme (INEP) Eskom grant contributing the lion's share of the reduction, together with the R500-million cut made to the INEP grant for municipalities. Prior to the adjustments, which were made in response to the National Treasury's call for department budgets to be reprioritised in light of the Covid-19 pandemic, R3-billion had been allocated for the INEP-Eskom grant and R1.85-billion to the INEP-municipalities grant.

ENERGY PLANNING

groundWork approaches court over IRP

Environmental organisation groundWork has launched new court proceedings against Mineral Resources and Energy Minister Gwede Mantashe and the National Energy Regulator of South Africa (Nersa). groundWork contends that decisions about South Africa's energy future must be made in a transparent and accountable manner, which forms the basis of its litigation.

The organisation is asking the North Gauteng High Court to order the Minister and Nersa to provide reasons for various decisions pertaining to the 2019 Integrated Resource Plan (IRP 2019). groundWork has sought written reasons for the IRP 2019 from the Minister and Nersa – which they are legally required to provide – since November 2019.

Study urges more ambitious renewables roll-out than contemplated in IRP

A more ambitious renewable-energy build programme than the one outlined in the Integrated Resource Plan 2019 (IRP 2019), which already has a large renewables component, will greatly benefit South Africa and should begin immediately, a new study asserts. Produced jointly by Meridian Economics and the Council for Scientific and Industrial Research Energy Centre, the study reaffirms that South Africa's "cost-optimal" future power supply should be based on wind, solar, storage and peaker plants, considering that new coal, nuclear and hydro are no longer economically competitive.

It also confirms that the cost of introducing an even lower emissions scenario is no longer significantly more expensive than a pure least-cost scenario and could be funded through a transaction with climate funders and development finance institutions. Such a transaction, Meridian Economics CEO Grove Steyn asserts, could contribute to resolving Eskom's financing crisis and provide support for a just transition for affected communities in key coal regions.

Accelerating a more ambitious renewables roll-out will deliver a large green stimulus that will attract job-generating investment in new generation facilities and associated value chains, Steyn, who is also a member of the Presidential Economic Advisory Council, adds.

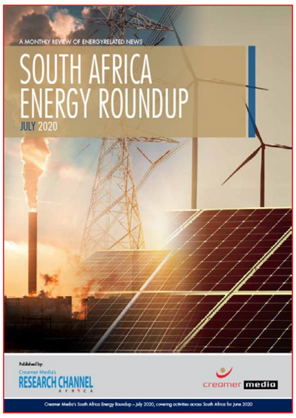
"Over the next ten years alone, a more ambitious renewables pathway could attract in the region of R200-billion more, at about R500-billion, in capital investments over and above the IRP 2019, whilst not relying on the fiscus."

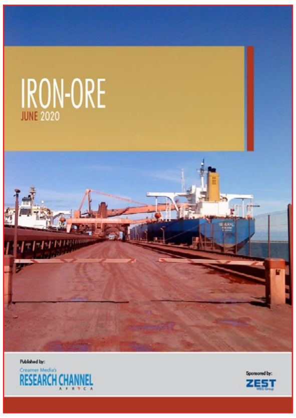
OIL AND GAS

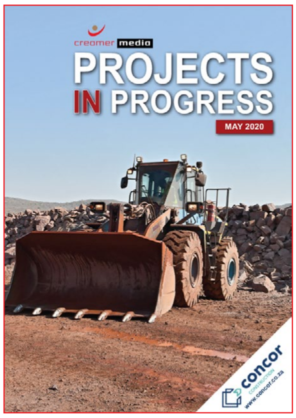
Standard Bank signs $485m financing deal for mega Mozambique gas project

South African banking group Standard Bank confirmed on July 17 that it would contribute $485-million (more than R8-billion) in debt finance to the $20-billion Area 1 liquefied natural gas project, being developed by a Total-led consortium in northern Mozambique. The South African bank is one of numerous international banks participating in the financing deal, valued at $14.9-billion. The deal, which is the biggest-ever in Africa, includes direct and covered loans from eight export credit agencies, 19 commercial-bank facilities and a loan from the African Development Bank. State-owned Development Bank of Southern Africa has confirmed financing of $120-million.

For other reports from Creamer Media, click on cover images below







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 July 2020.

Publication date: August 2020

Main sources: *Engineering News*, *Mining Weekly*, African News Agency, News24Wire and Reuters.