

Where next for South Africa's power market?

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While the Department of Energy (DoE) ploughs ahead with plans for new baseload power plants, the South African government still has many questions to answer regarding its pathfinder renewables programme.

The DoE intends to launch the tender process for 800MW of cogeneration and 2,500MW of coal-fired capacity in the next two months. Exact details on the tender process for baseload plants are not yet clear but it is likely it will emulate the renewable energy independent power producer procurement (REIPPP) programme, which to date has brought approximately 2,500MW of wind and solar deals to financial close through two development rounds.

Pricing low

The latest round of REIPPP development has seen three bidders shortlisted for a mini auction of 200MW of concentrated solar power (CSP). The bids for this round demonstrated exactly what DoE and Eskom have achieved through this process. ACWA Power is the favourite to take one of the two 100MW mandates on offer after bidding below R1.6 per kWh, the lowest bid for any CSP project in the programme and a globally competitive price for a relatively less proven technology.

The third round of bidding, which saw 17 projects awarded in November 2013, followed this trend of plummeting tariff prices. Selected developers offered prices of less than R1 per kWh for solar photovoltaic and less than R0.7 per kWh for wind developments. This race to the bottom is delivering cheap power purchase agreements for Eskom, but some worry that it is not meeting other stated objectives.

In the REIPPP rounds, preferred bidders are picked through an open auction, with bids judged on various environmental, developmental and financial criteria – with offered tariff prices a significant determining factor. All bids must include local content in regards to procurement and each project must be part-owned by local community groups. All debt for projects must be denominated in Rand, and all selected bidders benefit from a long-term offtake agreement with state utility Eskom.

After a long and challenging negotiation phase, the first 28 projects in the programme achieved financial close in November 2012, and the REIPPP scheme has since been widely seen as a success. Major developers and large utilities from around the world have been attracted to the South African market for the first time, and despite restrictions on foreign denominated debt, the local banking market has coped well with the large volumes of deals.

Local concerns

The DoE was clear that along with quickly helping to plug South Africa's power generating gap, the programme was designed to help local businesses and to help build a local renewables industry. With recent rounds seeing increased

downwards pressure on prices, these ambitions are now looking compromised.

Enel was the most successful developer in round three, winning four bids. It was able to achieve such low pricing because its financing plan is based on corporate loans. It is assumed in the market that many major developers will look to follow its lead in subsequent rounds. If the programme begins to heavily favour corporate financed deals, it will risk pricing smaller local developers out of the market.

Conscious of these concerns, the DoE confirmed at the time of the preferred bidder announcement that additional capacity might become available as an add-on to round three. This could mean many smaller developers priced out of contention in round three bidding still named preferred bidder. The DoE admits that many of those who missed out offered prices lower than those which won mandates in rounds one and two.

This potential good news story has been tainted in recent months however by delays and confusion. While a decision on additional capacity was originally scheduled for December 2013, developers had still not had confirmation by early April.

As part of the baseload announcement earlier this month, the DoE released a statement saying that it was planning to award more projects as an addition to round three, but still gave no other details. One developer told IJGlobal that it had previously given up hope on round three and was rewriting its bid in preparation for round four. Following the latest announcement they said they had been left completely confused about how to proceed.

Renewable zones

The additional capacity issue is not the only one the DoE needs to address. The market is waiting on a revised request for proposals document as part of round four, which will attempt to address some nagging concerns. Specifically the DoE is now expected to give strong guidance on the location of projects for the very first time.

Certain regions of the country such as the Northern Cape have proved very popular with developers but this concentration of projects will put a large strain on transmission infrastructure. Strong wind and solar resource is often found away from built up areas and substations. The DoE and Eskom are responsible for creating transmission infrastructure under REIPPP, meaning developers have no control over whether transmission lines are in place when their plants become operational.

The government is expected to announce the introduction of renewable energy zones. It is not clear yet however whether developers would be incentivised to build in these areas, whether locations outside these zones would mark down any bid (and by how much), or whether a certain allocation of MW would be available in different regions.

Gaining clarity from the DoE is also likely to be harder in the coming months. In March the department's first ever director general Nelisiwe Magubane stepped down early from her position due to health reasons, adding extra uncertainty to the programmes. May will also see a general election which will effectively shut down government for a number of months. A lot of people in the market have questions on the direction of the country's power market, but at present it is very hard to gauge when any answers may be given.

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