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IPPs raise red flag over Eskom agenda after state capture report

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Brenda Martin, SAREC chairperson and CEO of the South African Wind Energy Association.

Cape Town – Eskom CEO Brian Molefe's alleged behind-the-scenes efforts to ensure Gupta-owned Tegeta was able to buy Optimum Coal Mine took place at the same time the power utility publicly criticised the renewable energy sector as being too expensive, the South African Renewable Energy Counci (SAREC) said in its response to the state capture report.

Former public protector Thuli Madonsela's report released on November 2 details how Tegeta agreed to pay R2.15bn for Optimum from Glencore in 2016, but was R600m short. Prepayment of about R660m made to Tegeta by Eskom "appears to be entirely for the purchase price" of Optimum, the report states.

Eskom's decision to make this payment was made late at night on the same day Tegeta told Optimum's business rescue practitioners they were short by R600m, the report explains.

This allegation calls into question Eskom's agenda with Tegeta, which is part owned by President Jacob Zuma's son Duduzane. The report does not mention nuclear energy, but the main criticism around the nuclear build project is allegations that Zuma and the Guptas are working together to enrich themselves off the R1trn programme.

Molefe has refused to issue final budget quotes to preferred bidders in Round 4 and Round 4 extension of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) as he believes Eskom is being taken for a ride by the private sector.

IPP snub 'not economically motivated'

However, Brenda Martin, SAREC chairperson and CEO of the South African Wind Energy Association, doesn't buy it. Eskom's decision to stall the issuing of these quotes "is definitely not economically motivated", she told Fin24 on Friday.

Having read the state capture report, Martin is concerned that Eskom is snubbing IPPs for the wrong reasons.

"The strongest link was the timeline with Eskom's decisions with the coal contracts and what Eskom was saying in the public space about renewable costs," she said.

Eskom chair Ben Ngubane defended the utility's conduct last week. "Regarding the continued innuendo that Eskom has been giving special favours to Tegeta Exploration and Resources, the Eskom board stands firm by the processes undertaken by the company to conclude extensions of its coal supply agreements with its suppliers," he said.

"We are satisfied that due process had been followed and we can be proud of the savings achieved by the executive team to date. In the six months to September 30 2016, Eskom's primary energy costs were reduced by 1.5% compared to an average increase of 18% over the past five years."

Shift in nuclear power to Eskom

Cabinet last Thursday changed the implementing agent for the nuclear new build programme to Eskom, which some see as a major power shift. Molefe has come out in clear support of the nuclear programme, while also criticising renewable energy costs.

Eskom's increasing power in a sector that it dominates, as well as the allegations made about Molefe and the composition of the Eskom board, are of concern to SAREC, said Martin.

She said SAREC believes the deliberate refusal to comply with the ministerial determination on renewable energy challenges the prioritisation of green energy as outlined in the national development plan.

"It also has a negative impact on achieving government's green industrialisation objectives and undermines the renewable industry's efforts in bringing much-needed foreign investment into the country," she said.

Eskom's freeze on renewables

Eskom head of generation Matshele Koko has said he is concerned SA will spend R1.2trn over the next 20 years on about 7.3 GW from co-generation, Department of Energy peaker plants, renewables, the small renewable programme and bid windows 1 to 4.5.

The figure is strategic, as critics of the nuclear new build programme see the 9.6 GW costing at about R1trn. Clearly, Koko sees the private sector spend as more problematic than the nuclear build, which proponents see costing about R700bn.

However, energy experts have criticised Koko for using historic numbers in arriving at his figures and said renewable energy is now much cheaper.

“The Department of Energy’s IPP programme is now delivering incredibly low prices, much lower than Eskom’s average selling price,” energy policy expert Professor Anton Eberhard told Fin24 recently. “And prices for renewable energy continue to fall, while the costs of coal and nuclear are rising.”

FULL STORY: Eskom's IPP snub shows need for sector shake-up

There are 26 preferred bidders across a range of technologies, none of which has reached financial close due to Eskom’s refusal to sign further PPAs, explained Martin.

“These projects represent a combined value of R50bn in investment into the country that has been put on hold, which is ludicrous when considering our current economic climate,” she said.

Call for Eskom to be broken up

SAREC is not alone in its concerns. Eberhard, who serves on the Ministerial Advisory Council on Energy, believes Eskom’s anti-IPP stance is the reason why it should be broken apart.

“Eskom’s actions provide a clear rationale for restructuring our power sector so that Eskom is not both a player and referee.

“We need to follow best international practice by separating state-owned power generation from transmission and system operations, so that the latter can procure and dispatch both state and private power in a fair and transparent manner.

“That is the way to obtain a least-cost and environmentally sustainable energy mix for the future," Eberhard told Fin24 recently.