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PO Box 76297, Lynnwood Ridge, South Africa, 0040

Grain Building, 1st Floor, 477 Witherite Street
The Willows, Pretoria, South Africa, 0184

Tel. +27 12 807 6686, Fax. +27 12 807 5600
admin@agbiz.co.za, www.agbiz.co.za

Vat nr. 4920204684

Lights according to Eskom has ceased

Eskom's monopoly over power supply has irrevocably ended. The advent of independent power producers (IPPs) in the renewable arena has ended this monopoly.

This is the view of Brian Statham, chairperson of the SA National Energy Association (SANEA), a speaker at the Agbiz congress. "IPPs are going to become bigger and they will claim a bigger portion of the South African market," he said. "Our energy world will change fundamentally as a result."

Statham, who discussed energy security, said that IPPs will in future challenge Eskom's performance. "Eskom's performance will then be measured against independent, objective measures. Eskom should be given the benefit of the doubt. It may even do well," Statham said.

The new energy era will require a new set of competencies and negotiation skills with new role-players, such as lawyers involved in energy contracts. "We will have to look at things differently."

According to Statham some energy choices will be controversial. "We will have debates about the trade-offs of our decisions. There will be no right or wrong or perfect answers, only pros and cons about the energy choices we will make with regard to nuclear versus coal versus renewable energy."

Power transmission

With regard to power transmission Statham pointed out that the shape of the grid is changing. The participation of IPPs will assure that areas not previously served by Eskom, will now have access to electricity. "Sizing may be a problem. The transmitter system was designed with certain power flow assumptions and we could now face

congestion. The system will be much more complex to manage from a grid management point of view.”

Statham said that power distribution would be under severe pressure, as it “is falling apart”. The system was simply not maintained the past ten years. “With municipalities struggling for funding this may become a major issue in future against the backdrop of unrest about service delivery.”

Security of supply and pricing concerns may lead to grid defections, Statham believes. People who opt to go off grid will not contribute to the distribution system but because the system is still there, the consumer who is still using it will have to pay more. It will also be difficult to fund subsidies for people who can’t afford electricity or people who do not have any connection.

Statham pointed out that about 20% of South Africans are still without electricity. “The problem is that, to extend the system for 50 to 100 km to service a mere 50 to 100 units, will not work. But this presents opportunities for micro- and mini-grids and scope for entrepreneurs, especially in the renewables market.

“Don’t go for the European model of 99,9% availability. This is overkill and unaffordable. You cannot force an urban lifestyle on urban communities. People may not have money to buy appliances that use electricity. Take incremental steps.”

According to Statham matters such as the conflict over the roles of the private versus the public sector, overregulation, patronage and entitlement may also come into play.

Sources of supply

The following is a summary of Statham’s thoughts on the sources of supply.

Oil and liquid fuels

- US shale gas and oil prices are down and there is a fight for market share. If Iranian oil becomes acceptable again prices will remain down longer. Globally oil and gas prices are beginning to be separated. Previously they were linked.
- South Africa has no secure domestic oil fields and is a price taker. There is no security of supply.
- South Africa’s refining capacity for liquid fuels has stalled and is out of date. No import facility has been built for a long time. Refiners are uncertain if they will be

able to cover their costs if they upgrade, either by government subsidies or through the fuel price. The rules of the game are unclear.

Natural gas

- There is little natural gas available locally. Recent finds in Mozambique are largely committed to other countries.
- The global price is shifting as gas is becoming a commodity.
- Space for additional import facilities in South Africa is limited because of the country's harbour facilities that are already running to capacity and are congested.
- There are a lot of initiatives such as the department of trade and industry's recently-announced industrialisation strategy based on imported natural gas. This will, however, require an import terminal and an "anchor" customer to justify the expense.

Future

As far as the future is concerned, Statham believes that South Africa needs to prioritise energy "equity" rather energy "sustainability". He also believes that service delivery will be an issue of general dissatisfaction. Instability and lack of policy clarity will deter private and foreign investment and all sectors will be vulnerable.

"South Africa's transport system, both road and rail, is vulnerable to liquid fuel sector problems and gas is a long way off," Statham said. "Grid defections are going to increase the problems. Many people favour the idea of going off the grid, as a community or as a business. The question is how sustainable this is if the rest of the value chain collapses. It will not help you to produce of the grid when there is no diesel to transport your product to the market."

Statham warned that South Africa faces some very difficult policy decisions about energy. "There is no clear direction or strategy. We will have to look at what the future role of coal is going to be in our energy mix. What is going to be the source of our liquid fuels? Are we going to upgrade our refineries or are we going to totally rely on imports? Are we going to promote natural gas and develop the required infrastructure? Are we going to have blending energy systems?"

South Africa will have to find ways to involve the private sector and there is a need for serious engagement with government, he urged. "We will also have to find environmental pathways."

Consumers also have difficult choices. “Go off-grid to control costs, but then you have to take responsibility for security and supply. There will be no grid back-up.”

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Enquiries

Dr John Purchase

E-mail: john@agbiz.co.za

Mobile: 082 447 2308

Written by Derick van der Walt for Agbiz

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