BIZCOMMUNITY

Electricity prices hurt consumers

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Electricity consumers will have to dig even deeper into their pockets for the clean energy that Eskom will be buying from independent power producers (IPPs). The tariffs IPPs will receive are nearly five times the 61c/kWh that Eskom is now charging its customers.

One IPP, which did not wish to be named, told the *Financial Mail* it would be paid R2,81/kWh of power sold to the national grid.

In its application for a 16% tariff increase for each of the next five years from April 2013, Eskom says it will use 3% of that to fund its purchase of electricity from the IPPs. If approved, it will double the price of electricity consumers now pay to R1,28/kWh by 2018.

The contracted tariffs for renewable energy in the new build programme are already double Eskom's projected price five years from now. In October, the company said it paid existing IPPs an average 77c/kWh, including imports from Mozambique's Cahora Bassa hydroelectric station.

"The renewable energy industry needs to be subsidised for the next 10 years in South Africa before it can stand firmly on its own," says Nicolas Rolland, a partner at the Darling Wind Farm in the Western Cape. Begun as a pilot project, the farm has been selling wind-generated power to the City of Cape Town since 2008.

Contracted at rates lower than Eskom's current 61c/kWh, the Darling wind turbines are not generating enough revenue to sustain the project. Rolland says the company will be negotiating with the city to get a price in line with the IPP price.

The financial close for the first phase of the energy department's integrated resource plan, signed by Energy Minister Dipuo Peters, means the 28 preferred IPPs have been given the go-ahead to start building the infrastructure for 1,470MW of energy from renewable sources like sun and wind at an estimated cost of R47bn.

The projects are the first of three phases - totalling 3,725MW - that the energy department plans to source from IPPs by 2016. When complete, it will take the total amount of renewable energy to 8,735MW by 2025. At that level the sector will contribute the equivalent of 30% of the nation's energy mix, lowering Eskom's generation contribution to 65% of South Africa's total power capacity from the current 95%.

IPPs have welcomed the financial close, saying it allows them to begin building their power plants to be able to deliver within the five-year deadline.

Building Energy, a company domiciled in Italy, will start construction on its R3,5bn photovoltaic (solar panels) plant within a month of the financial close, says the company's Africa chief executive, Matteo Brambilla "The plant will be under construction for the next 21 months, after which the power will start flowing," says Brambilla.

When complete, it will provide 81MW for the next 20 years. If paid R2,81/kWh, Building Energy will earn annual revenues of more than R500m.

Employing 350 people during construction, the Kathu, Northern Cape, facility is one of many that will create an estimated 50,000 jobs during the construction phase of the renewable power plants. Brambilla says 63 people will be required to operate the station after it is finished.

JSE-listed Consolidated Infrastructure Group (CIG), formerly Buildworks, will also start work on its R600m in orders. CIG's job is to install the engineering and electrification work that connects wind turbines to Eskom's grid.

Tthe next round of the programme, for which about 19 preferred bidders must reach financial close by May 2013, will see 1,275MW of power being generated at an estimated cost of R28bn.

In May next year the department will also announce preferred bidders and the size of the third round of the renewable programme.

Source: *Financial Mail* via I-Net Bridge