Making a clean start

Decarbonisation of the economy will also help Eskom, writes **Pedro van Gaalen**

SA's plans to transition away from its reliance on "dirty" energy production to decarbonise the economy while simultaneously supporting Eskom's current generation constraints will create significant environmental, social, and corporate governance (ESG) investment opportunities.

"Against the backdrop of a carbon-intensive economy, where fossil fuels contribute significantly to SA emissions, it is imperative we transition to a low-carbon economy and develop and stabilise our electricity supply," says Jonathan de Pasquallie, ESG analyst at Sanlam Investments.

Load-shedding, first experienced in 2008, remains a significant impediment to domestic economic growth.

"ESG investors can play a critical role in creating a stable electricity supply by deploying capital into initiatives in the private and public-private partnership sectors," says Fedgroup CFO Sheldon Friedericksen.

"There is a significant focus on renewable energy, which is set to play a key role in a stable electricity supply."

In this regard, local and global independent power producers (IPP) are eager to capitalise on the demand created by government's updated Integrated Resource Plan (IRP).

The department of mineral resources' section 34 determination will also procure additional capacity as part of its Risk Mitigation IPP Procurement Programme.

Jonathan de Pasquallie ... opportunities

These measures aim to address Eskom's short-term electricity supply gap of about 2,000MW between 2019 and 2022 while securing reliable long-term electricity supply to support local economic growth.

"Decarbonisation has emerged as a strong investment theme, which we believe is a boost for green and renewable energy projects in the country," says Vuyo Ntoi, co-MD of African Infrastructure Investment Managers at Old Mutual Alternative Investments.

The capacity allocated in the latest determination includes 6,800MW from wind and solar photovoltaic (PV), 513MW of storage, 3,000MW of gas to power and 1,500MW from coal.

"Supporting bid windows in rounds 4, 5, 6 and 7 over the next two years with domestic capital will help reduce bid prices. When coupled with technological progress, which has ensured that wind and PV are now the lowest-cost generation technologies, these developments should yield lower tariffs," adds Ntoi.

However, access to capital for renewable projects has not kept pace with growing demand in SA, believes Friedericksen.

"The risk and reward consideration related to these projects must mature away from traditional project financing credit processes and evolve into innovative funding models that deliver shared value across the value chain," he says.

Ntoi hopes that draft amendments to regulation 28 investment limits will expand the capital pool by prompting retirement funds to take a bolder approach to infrastructure investments in future, particularly in the renewable energy sector.

"We hope the National Treasury's proposed amendments give trustees the latitude to engage expert consultants and find fund managers who can reliably invest pension money into the sector."

However, renewable energy alone cannot adequately address SA's long-term electricity requirements.

"Solar energy is only produced during the day and is subject to favourable weather conditions. As such, our energy mix will also require electricity storage and peak demand generation units for load balancing the grid," says Friedericksen.

Vuyo Ntoi ... decarbonisation boost

"These projects come at significant planning and cost. However, these investments can deliver superior performance, as witnessed internationally, and create the foundation for economic growth and employment."

The natural gas sector stands to benefit in this regard as hybrids of gas and renewables will dominate the risk mitigation round, says Ntoi.

"Gas serves as a primary feedstock. Though it is a thermal energy source, it is a step towards decarbonisation as it can replace coal and diesel. The transition from diesel to gas and renewables should bode well for Eskom's financial position and the broader energy value chain," says Ntoi

"Greater focus on gas would also make liquefied natural gas (LNG) import facilities at ports more feasible and develop a robust gas economy in the country. As such, we believe the IPP office should take on as many projects as it can from the Risk Mitigation Round, subject only to grid constraints."

Ultimately, ESG investors have the opportunity to play a central role in safeguarding economic, environmental and social assets that generate sustainable returns for the future through their investments, adds De Pasquallie.

"Cleaner and more sustainable options may, however, require significant new resources, blending state and private capital and access to financial markets through additional instruments," he concludes.