

IPPs could go out of business, Treasury warns Eskom

Eskom's delay in signing power purchase agreements with renewable energy independent power producers (IPPs), which had bids approved by the department of energy, could result in manufacturers going out of business, National Treasury warned in its 2017 Budget Review.



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"Lack of clarity on Eskom's plans to connect new IPPs to the electricity grid ... has prompted concerns that some renewable energy equipment manufacturers could go out of business," it said.

Eskom has said it will sign contracts with the IPPs, but the industry has warned that the power utility is being unreasonable with escalating costs to connect them to the national grid and wants some bidders to lower their own costs of supplying power to Eskom.

SONA clarifies IPP agreements

This followed President Jacob Zuma's instruction to Eskom in his State of the Nation Address in February, in which he said Eskom will connect the latest bidders to the grid.

"The 2017 State of the Nation speech addressed an important aspect of this policy uncertainty, noting that Eskom will sign outstanding power-purchase agreements for renewable energy in line with procured rounds," Treasury said.

Imperative to boost growth

In his budget speech, Finance Minister Pravin Gordhan pointed out that the continuation of the IPP programme was "imperative" to boost investment in the short term.

In its Budget Review, Treasury said the IPP programme "boosted power generation, attracted R194,1bn in private investment and created thousands of jobs".

"Transforming the energy sector, with growing opportunities to generate electricity from renewable sources, can open the market to new, innovative businesses and boost employment creation."

"IPPs have helped to reduce South Africa's carbon emissions and fostered the development of new renewable energy firms, some of which have become exporters."

Reducing inequality

The IPP programme was also imperative in Zuma's bid to transform the economy to address poverty, inequality and unemployment.

"On average, black South Africans hold 31% of shares across the IPP supply chain," Treasury said. "Local communities own 11% of the projects and are expected to receive R29,2bn in income over 20 years. Contracts under negotiation have the potential to generate over R500bn in investment and create more jobs."

Blueprint for other sectors

"Government plans to continue the IPP programme and extend the successful model to other sectors," it said.

Value added in the electricity sector fell by 2,9% in the first three quarters of 2016 as electricity-intensive sectors such as mining contracted.

This was due to the "increased power supply from Eskom and IPPs, Eskom's enhanced maintenance programme and low demand stabilised supply," Treasury said.

Preferred generation mix

Regarding the department of energy's Integrated Energy Plan and the Integrated Resource Plan, Treasury said these proposals will be open to public comment until the end of March 2017.

"Fiscal sustainability and consumer affordability will inform government's choices on the preferred generation mix," it said.

In line with the national commitment to transition to a low-carbon economy, IPPs will generate 14,725MW from renewable energy sources.

"Since August 2011, six procurement bid windows have been completed under the Renewable Energy Independent Power Producer Procurement Programme.

"The programme has procured combined generation capacity of 6,376MW since its inception. Of the renewable energy capacity procured, 4,001MW is at various stages of development.

"More than 11,000 gigawatt-hours have been added to the national grid since 2011.

"Private-sector investment in the programme amounts to R201,76bn to date, of which R49,1bn is from foreign investors and financiers."

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