Publication: City Press - Business **Page:** 1
Title: GREEN fund could save Eskom **Publish Date:** 19 May 2019
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GREEN fund could save Eskom

A climate change mitigation finance vehicle, based on carbon reduction, could raise billions to bail out the utility

A unique financing vehicle, based on reducing carbon emissions, is being developed by the Eskom sustainability task team – appointed by President Cyril Ramaphosa last year – in order to raise up to R200 billion to save the utility from its debt spiral.

There is "huge interest" from major development finance institutions in Europe and the UK, said task team member Grové Steyn.

The vehicle, which is being tweaked as discussions with potential international and local investors progress, is being developed by Meridian Economics, where Steyn is managing director, in consultation with the seven other members of the presidential task team.

Steyn said the aim is to unlock between R150 billion and R200 billion from climate change mitigation funding, at discounted interest rates, in return for Eskom accelerating its shift away from coal-based power generation.

This would reduce carbon emissions in South Africa's power sector, which is one of the most carbon-intensive in the world.

The deal would also include Eskom proceeding to unbundle its generation, transmission and distribution operations into three separate business units, and meeting its social responsibility mandate.

But cutting carbon emissions is at the core of the financing model.

Task team member Professor Anton Eberhard said Eskom's 2019 financial statements, which are set to be published in June or July, would reveal a further record loss of R25 billion for the end of March – Eskom's biggest loss in its almost 100-year history.

Furthermore, Eskom's revenue is less than half of what it requires for its debt repayments, and the utility is having to borrow to pay its creditors. Its total debt level is reportedly nearing R500 billion.

Steyn said funding raised on the back of carbon emissions reduction would help Eskom to keep going and protect Treasury from having to provide further bailouts.

Eskom is deep into "junk" status, or subinvestment grade, and is unable to raise any further money through commercial financing because of its debt-to-revenue ratio.

The new model for obtaining funding to reduce carbon emissions "is about restoring funding to Eskom through a bespoke vehicle structured on climate change mitigation," said Steyn.

The funding would be provided at subcommercial rates.

With the average age of Eskom's coal-fired power stations at 37 years, closures of the oldest ones, such as Hendrina, Grootvlei and Komati, are already on the cards.

According to the draft Integrated Resource Plan (IRP), circulated in August last year, 12 gigawatts of coal-fired power will be decommissioned by 2030 and 35GW by 2050.

This will reduce South Africa's reliance on coal for energy production to 20% by 2050.

Steyn said the coal reduction baselines contained in the finalised IRP will need to be accelerated to unlock the climate change mitigation funding offered by the new financing vehicle.

Energy Minister Jeff Radebe told delegates to this week's African Utility Week conference in Cape Town that the finalised IRP would be published "imminently".

> "We need to be open to the idea of remodelling our business and developing strategies with direct foreign investors who are not interested in coal"

But, said Steyn, a moderate acceleration of the decarbonisation programme will yield substantial results given South Africa's carbon-intensive economy. He could not divulge further details of the funding vehicle because the model is still being developed.

Although components of the model, such as an international carbon credit trading, exist, Meridian is creating a new, bespoke model which is changing according to ongoing conversations with international partners who are showing "substantial interest".

However, at some point a government mandate for the model will have to be provided to finalise financing. But if up to R200 billion can be found at discounted interest rates, Eskom could shed its expensive debt, and the lower debt interest rate would create significant savings over time.

Once the cost of debt has been reduced and Eskom's debt-to-revenue ratio has improved, Eskom could return to the commercial lending market as required.

The average interest rate Eskom is paying on its debt could not be determined, but Steyn said the last sale on the international bond market was at about 14%.

As stated above, the new model will require Eskom to reduce its reliance on coal above that stipulated in the IRP, but Radebe told African Utility Week delegates that South Africa's "abundant coal reserves" cannot be ignored.

Radebe said the timing of a transition to a low carbon economy, in line with the Paris Agreement on climate change, must be sensitive to the potential ramifications this could have on jobs and for local communities.

The Paris Agreement is an agreement within the UN Framework Convention on Climate Change that was signed in 2016. It deals with greenhouse gas emissions mitigation, adaptation and finance.

"Carbon capture and storage, underground coal gasification, coal to liquids and other clean coal technologies are critical considerations that will enable us to continue using our coal resources in an environmentally responsible way," said Radebe.

But this is at odds with Eskom CEO Phakamani Hadebe's observation that "every year, fewer investors are willing to fund fossil fuel".

This includes three of South Africa's four largest banks.

"We cannot do things as we have always done. We need a new mind-set," said Hadebe.

"We need to be open to the idea of remodelling our business and developing strategies with direct foreign investors who are not interested in coal."

In terms of providing the baseload energy that coal enables, he said energy storage to capture power from renewable sources was "dominating the conversation".

"We are going to put huge energy storage in South Africa," said Hadebe, adding that technology was being developed in collaboration with "one of South Africa's universities".

Mark Swilling, professor of sustainable development at Stellenbosch University's School of Public Leadership, said the "bottom line" was that over the past year, "87 of the largest financial institutions in the world announced they are disinvesting from coal".

Swilling warned that even if the government wanted to continue using coal, there was no funding for it.

This, he said, was because financial institutions were making long-term risk decisions, and the long-term scenarios had changed because global warming was presenting a new set of risks that did not exist before.

He said that, should South Africa continue building coal-fired power plants, a recent study by the Climate Policy Initiative calculates we will end up with $4 billion worth of stranded assets, some of which are still being built.

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