

Nail in the coffin for Eskom's monopoly in South Africa



Cape Town will call for tenders to implement several major projects aimed at cutting electricity costs and bolstering water security in South Africa's second-largest city and main tourist hub.

The municipality will this month begin the process of engaging an electricity trading company to provide it with additional power, Mayor Geordin Hill-Lewis said.

Later in the year, it will ask private companies to bid on multibillion-rand desalination and water re-usage plants, he added.

The steps come as Cape Town, South Africa's only major metropolitan area ruled solely by the Democratic Alliance political party, seeks to boost its appeal to businesses and cater to a rapidly expanding population.

The city of about 5 million people has been the first to seek to break Eskom Holdings SOC Ltd.'s monopoly and is pushing to take over commuter-rail services from a national state company.

The appointment of an electricity trading company will mark a change in approach, as it will effectively outsource the task of securing power to a private company that can buy it from a range of providers.

To date, the municipality has entered into separate supply agreements with companies that would then build the required generation capacity.

“We’ve learned a lot of hard lessons. Negotiating contract by contract is excruciating. The market has moved on,” Hill-Lewis, 39, said in an interview in the stands of Cape Town’s 55,000-seat DHL stadium this week.

“We don’t have to negotiate with individual providers. We can just buy from a trading platform.”

Cape Town has so far agreed to buy in about 300 megawatts of power – in addition to what it gets from Eskom – and is building 60 megawatts of generation capacity itself.

South Africa experienced years of rolling blackouts because state-owned Eskom was unable to meet demand from its ageing, poorly maintained plants, though outages have ceased over the last eight months.

The power procured under the new tender, which will be published on Feb. 13, will likely be cheaper than that supplied by Eskom, as it will mostly come from renewable sources as opposed to coal-fired power plants that the state utility relies on.

Electricity costs have risen more than 600% in South Africa over the last two decades, and recent changes to legislation have allowed the private construction of large power plants, many of which use the country’s abundant solar and wind resources.

The water-provision tenders will be for a desalination plant capable of providing 130 million litres a day and a re-usage facility of the same size, Hill-Lewis said.

Construction is expected to begin by about September next year, with completion seen by 2030.

Given the scale of the projects, they will be structured as public-private partnerships, Hill-Lewis said, with developers funding the upfront capital costs in exchange for 20-year water purchase agreements.

The city is also directly funding four aquifer projects that are currently in the process of being drilled and will provide about 80 million litres of water in total.

Cape Town uses more than 1 billion litres of water a day, and taps almost ran dry in 2018 during the worst drought on record.

The dams that supply the city are currently 60% full after below-average winter rainfalls, and have been dropping by about 2% a week.

While there is no immediate concern about water security, the city has been urging residents to cut back on their usage to safeguard against future shortages.