

SA's maturing green energy sector attractive for investors

Since government launched the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) in 2011, green power projects have become increasingly appealing investments for local and international players.



However, the landscape has changed drastically since the first two rounds of the programme. All of the projects in the first three rounds are now fully installed and operational and successfully selling electricity to Eskom. The fourth round projects have reached financial close and many of the projects are under construction. The country is now awaiting an announcement from the Department of Mineral Resources and Energy about the commencement of round five of the generation capacity procurement, that will culminate in the signing of new power purchase agreements with Eskom.

"Due to lock-in periods having now passed on the projects in the earlier bid rounds, we are now seeing many of the initial participants and some original funders cashing out and getting real returns on their investments. Renewable energy projects now have a positive track record in South Africa," says Tessa Brewis, director in the corporate & commercial practice at Cliffe Dekker Hofmeyr (CDH).

She adds that it is attracting new investors and making the funding of such projects more viable and cheaper than the initial bid rounds. This in turn enables the bidders to offer more competitive bids in the form of lower tariffs.

The growing secondary market is also creating opportunities for black South African investors to acquire significant interests in these projects, in line with the policy objectives of the department. The ability to obtain more competitive funding has made it far easier for investors to refinance their stakes in green energy projects.

Waiting for round five

While there is currently a delay in announcing round five, Brewis is confident that this will change.

“Many partially developed projects are currently on hold as the sector waits for the next round to kick off. However, going forward, we can expect a lot more certainty in this space and a much more competitive and mature market,” says Brewis.

A great deal of project funding is expected to come from commercial banks, institutional and other long-term investors, as well as the development finance institutions such as the Development Bank of Southern Africa and the Public Investment Corporation, she says.

Brewis adds that the burgeoning renewable energy sector will have a profoundly positive effect on the country’s economy, attracting foreign investment and boosting power generation capacity, while also creating much-needed jobs at a time when South Africa is struggling with a growing unemployment rate.

The renewable energy industry is being developed to achieve government’s goal of transitioning to a low-carbon economy, with a target of 17,800MW to be generated from renewable energy projects by 2030. Of this, 5 000MW is expected to be generated by this year, while a further 2,000MW is planned to come on-stream by next year.

The REIPPPP is considered to have been hugely successful to date, attracting foreign investment, creating jobs and promoting skills development. According to figures released by the Department of Energy, the programme has already attracted more than R200bn since its inception.

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