

CEO INTERVIEW

By David McKay

# 'We need competitive energy'

JSE-listed Hulisani is an investment company focused in the secondary energy market. David McKay spoke to the company's CEO, Marubini Raphulu, about our energy crisis, the redrafted Integrated Resource Plan and whether or not there is political will to turn the lights on for good.

The view from Marubini Raphulu's office is pretty impressive. A few floors below, Sandton's Rivonia road pulses with traffic. Neighbouring new-age, glass-panelled offices soar and sweep.

There's even a smattering of jacaranda, now in bloom, just beyond in the moneyed suburbs.

Behold the Sandton bubble.

Nothing, though, pops the illusion of developed economy nirvana, such as the Sandton central business district skyline, quite like the debilitating energy crisis in which South Africa currently finds itself.

The lights go off, the traffic snarls, and hundreds of diesel-burning generators rattle into motion. More seriously, investors second-guess plans to invest while the rating agencies that influence the sovereign cost of capital turn the dimmer down on the country's creditworthiness.

For Raphulu, CEO of Hulisani – a JSE-listed investment company focused in the secondary energy market – energy security is an economic and a human question; of those primal needs the country can't afford to ignore.

"Energy is a primary need," he says in an interview with *finweek*. "And when you're looking at energy, you're looking at water and you're looking at food: these are the things people feel passionately about, and rightly so," he says.

This is why government has long sought to protect its control over the energy market, only grudgingly allowing the private sector to participate. "The concern is ... the private sector's driven solely by motive: the profit motive, and it will double prices," says Raphulu.

But the Eskom debacle, which has heaped

unsustainable financial pressure on the power utility, has brought government to a place where it can no longer keep the private sector leashed.

Hence the recently published redraft of the Integrated Resource Plan (IRP2019), made public by the department of minerals and energy (DMRE) in October after years of contorted delay and vacillation. The re-write was essential. Consider, for instance, the fact the 2010 version had forecast SA GDP growth of 4% in 2019 – and that was a low-road scenario!

What's appeared is, in the view of Raphulu, a compromise document. Like so much government edict, it seeks to meld uncomfortable economic reality while trying to keep faith with the ideology of its political roots; hence the significant part still to be played by coal-fired electricity supply despite the fact that renewable power is more than 80% cheaper than in 2010.

"I don't envy him," says Raphulu of minister of mineral resources and energy, Gwede Mantashe, who has stood behind the IRP2019 and doubtless played an influential role in preserving coal's position in SA's energy mix. "I think he's in a very difficult position: he used to be a NUM [National Union of Mineworkers] organiser and now he's sitting on the other side."

Yet, there's a few things to admire. For instance, the uncapped contributions allowed to small independent power producers (IPPs) up to and including 2023 is a massive step forward, says Raphulu. "I think it's a great market. What you want as a consumer is choice and you should be able to control what your inputs are, especially when you're running a business," he says.



Marubini Raphulu  
 CEO of Hulisani

**"The more you create competition, the more we will battle each other's IPPs and drive prices down."**

Photo: hulisani.co.za



## on the money spotlight

This is the part of the IRP2019 that allows companies producing less than 10MW to supply to the national grid. It means industries such as steel manufacturers will be able to take back a portion of their cost base instead of having to absorb the remorseless march of Eskom tariff increases.

"As a business, you have the right to put up your own power or have someone put it up for you, and then have the predictability in the supply. We can put up a plant and say we will increase it by CPI over the next 20 years.

"You can model that; put it into your model and say essentially my power consumption is tracking CPI. My power price is tracking CPI so as an input I know exactly where it's at," says Raphulu.

It's not exactly the kind of business area where Hulisani would like to operate – it primarily focuses on utility and municipal business – but Raphulu recognises the economic benefits of encouraging small-scale IPPs.

Essentially, Hulisani buys cash flows from existing businesses, primarily in the renewable power sector, or is willing to seed joint ventures in new business in return for dividend flow which it then passes on to its shareholders, typically pension funds.

It has already invested in GRI Wind Towers which makes the masts from facilities in Cape's Atlantis. It also has a stake in RustMo Solar PV, as well as Dedisa, one of the frighteningly expensive, diesel-burning peaking power plants – open cycle gas turbines (OCGT) – on which Eskom relies for its power of last resort before imposing load shedding.

"If you came and said you just wanted to do 1MW, it doesn't make sense for us. If you have a pipeline of 100MW over the next five years, that's different," he says.

Orion Minerals, an Australian-listed company that is refurbishing and expanding a previously idled copper and zinc mine in the Northern Cape, is an interesting prospect. It needs cheap power and needs to build 70MW over the next five years.

"That's an exciting prospect. You have a chat with them, where they are going, if they are a good off-taker, if they're bankable, and what the risk profile is and then, if they are bankable, that's a good client to have," he says of the firm's potential client base.

Hulisani's share price, however, is 16% lower on a 12-month basis. The company cut losses year-on-year but registered impairments. It is like any new enterprise in the foothills of its existence: It has a high cost base waiting on new business – or scale, as Raphulu



Wind turbines near Caledon in the Western Cape

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describes it – in order to take down costs and generate annuity income. But the massive 'quo vadis' over the management of SA's energy future hangs over the company.

Promisingly, the IRP2019 has set about accelerating the role of renewable power in the overall mix. It wants to introduce 20 400MW of new power from solar and wind in the next ten years, which compares to the 6 422MW in renewable power that was provided in the previous ten years.

Does Raphulu think, however, that government has the institutional capacity and political will to make good on IRP2019?

"Yes, I do. My caveat is that government needs to enable: It needs to put in place what we're looking to achieve and enforce it and let the private sector run with it. If you have this nanny state where, before you do anything, you have to ask what's happening here or what's happening there, you are likely to run into trouble."

One area of potential enablement comes with Eskom, the power utility. IRP2019 gives Eskom scope to compete in the renewable energy business. Again, Raphulu is fine with this, provided it's to allow the utility to displace its coal-fired capacity, of which some 10 000MW in existing generation is to be disabled in the next ten years.

Displacing Eskom's existing renewable contracts with the private sector is clearly not on, though.

Similarly, it'll be interesting to see where government lands on Eskom's over-staffing crisis when more detailed plans for the utility are shared. It will need a light, nuanced touch – not a characteristic for which government is traditionally known.

Above all, Raphulu is calling for certainty, especially on Eskom's future: say what the rules of engagement are – and stick with them. "Put the handcuffs in place and let industry run with it," he says.

"The more you create competition, the more we will battle each other's IPPs and drive prices down. What you don't want is for someone to go into Eskom and now there will be a new monopoly. Then you're in the same position.

"What we need is competitive energy where we can produce power, feed it into the grid, feed it into a municipality. You should be able to put up an 8KW system on top of your roof with minimum hassle and sell it into the grid. Why not?" ■

editorial@finweek.co.za

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