

## RENEWABLE ENERGY

# Better deals from sun and wind

The cost of early renewable power contracts, which Eskom argues is too expensive, is starting to come down



**Charlotte Mathews** mathewsc@fm.co.za

● The department of energy is taking steps to reduce its most expensive renewable-energy tariffs to share in the financial benefits as developers of early-round projects are starting to renegotiate debt, says Mark van Wyk, head of unlisted investments at Mergence Investment Managers.

A spokesman for the department confirmed the move.

The tariffs agreed on with government's independent power procurement (IPP) office for the first rounds of renewable energy projects were far higher than for the later rounds.

First-round solar photovoltaic (PV) projects are selling to Eskom at R2.75/kilowatt hour (kWh) and first-round wind projects at R1.14/kWh. In the latest rounds, the tariff for solar PV was 87c/kWh and wind was 69c/kWh.

Eskom uses the early tariffs to argue that renewable energy is too expensive, given its intermittency, compared with baseload nuclear and coal-fired power.

Van Wyk, who manages the R1.5bn Mergence Renewable Ener-

gy Debt Fund, which is invested in 12 projects, says because the risk in the first round of projects has reduced over time, developers are able to restructure their debt over longer periods or cut 100-200 basis points off the interest rate, which significantly improves shareholders' returns.

An early project in Mergence's fund is in negotiations with banks and the IPP office. Others are expected to follow. The concept of governments' "shared benefits" in the falling costs of renewable projects is a global trend, he says.

Another fund manager confirms the trend, describing it as "refinancing gains" that are standard in power-purchase agreements.

Van Wyk says the implications for Mergence's fund, which was the first in SA to offer pension funds exposure to renewable energy debt, are that as the fund's returns reduce from the benchmark of three-month Jibar + 3% (net) to a yield close to the benchmark Eskom long bond, Mergence will move those projects into a lower-risk fund.

It has launched its second renewable energy debt fund. **x**