

# CENNERGI

## WINDS OF CHANGE



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*With Eskom no longer having the sole responsibility for electricity generation in South Africa, new independent providers are moving into the market. Cennergi, one of the most recent entrants, is setting itself ambitious targets*

WRITTEN BY: **ALAN SWABY**  
RESEARCH BY: **JON BRADLEY**



There's something of a paradox in South Africa: the country sits on a sea of coal and yet the government has taken the brave decision that the drastic imbalance between an ever growing demand for electricity and an inadequate supply—a situation that affects businesses and residential consumers throughout South Africa and its neighbouring countries—can't be solved by building more coal-fuelled power stations. Once the two projects currently under construction at Medupi and Kusile come on-stream by 2015 and 2018, there may never be another coal-powered station built there.

As early as 2003, this had executives at Kumba Resources scratching their heads on what sort of future their considerable reserves of coal would have. The best scenario possible was a plateau in demand as early as 2008. Since then, Kumba Resources has gone through a number of structural and ownership changes with the primary objective of creating a new generation South African company, with a broader spread of shareholders from previously disadvantaged backgrounds—including employees and communities in the vicinity of Kumba's operations. In 2006, the coal, mineral sands, base metals and industrial minerals were separated from the iron ore interests and emerged as Exxaro—one of South Africa's largest diversified mining companies.

Thomas Garner was one of those Kumba executives pondering what the future might be like and with the creation



Cennergi  
launch venue

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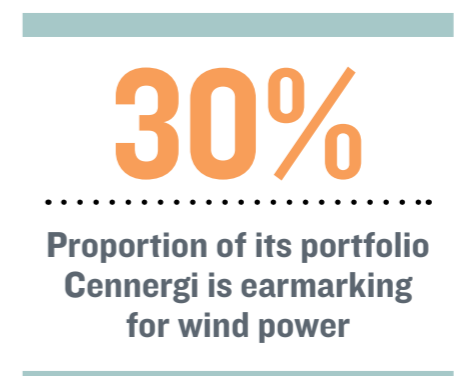
Executives after the signing ceremony to commemorate the launch of Cennergi

of Exxaro, he was given the task of investigating all the possibilities further. “We could see that tariffs would continue to rise,” he says, “in response to a general shortage of electricity capacity worldwide. It was also clear that we had to work towards a low carbon economy and with that, we developed the model of having an independent energy producer operating across the spectrum of energy sources—coal and gas at one end and renewables at the other.”

Within Exxaro, there was the realisation that a mining company was not

the best home for an energy generation business, so Garner started to look for suitable partners with which Exxaro could joint venture. The outcome of this search has now been made official: Exxaro and the Tata Power Company of India have formed a 50:50 partnership to create a new energy company, Cennergi, of which Garner is the CEO.

Throughout the past decade, while South Africa has been plagued with energy outages and load shedding has become a way of life, there has been plenty of discussion among industry members about



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how the future should look. Garner has been involved with the setting up of several industry forums such as the South African Independent Power Producers Association and the South African Wind Energy Association, which have shared views and visions with fossil fuel generators, the nuclear industry and the Department of Energy.

From this forum came the blueprint for energy supply known as IRP2010 (integrated resource plan) which sets out the targets for what contribution each energy source should provide.

Consumers are going to have to get used to much higher electricity prices. The IRP indicates a long-term electricity price at more than 150 per cent of current levels. Coal and nuclear will remain the backbone of supply but after Kusile is finished, there is provision for only one more coal-fired power station in 2027—a prospect which will temper Exxaro's current coal operations in South Africa. On the other hand, the industry will be encouraged to invest in renewable energy sources with a target contribution of 16 per cent.

“We have set ourselves the target of being the largest independent electricity supplier,” says Garner, “and as such, we are aiming for

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Thomas Garner, CEO of Cennergi

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Cennergi hopes to produce wind-generated energy at a comparable price to coal-powered

a 15 per cent share of the market which means we envisage producing 16GW by 2025. To achieve this will mean considerable investments and in this respect, the very solid balance sheets of Exxaro and Tata Power will be indispensable.”

The race is already on. Cennergi has won two licences to produce wind generated electricity with a total capacity of 234MW. And while there is still some confusion about the economic efficiency of wind generation, Garner is in no doubt that it will work. “It’s very difficult to make a true comparison of costs,” he says, “because measuring the total impact of CO2 emissions and water pollution from fossil fuels is so contentious. But developing countries like ours have the

advantage of being able to learn from the mistakes made in the northern hemisphere and even leapfrog into more efficient technology.”

Garner is convinced that by applying the same principles developed by Exxaro to maintain its mining equipment, Cennergi will be able to produce wind-generated energy at a comparable price to coal-powered. “Exxaro uses RCM to

understand cost drivers,” he says. “We regularly extend the operating life of equipment much longer than suppliers promise and at a lower cost. Our dump trucks, for example, take a battering but still double the life span the manufacturers recommend. We shall apply the same principles to our generation equipment.”

With the total number of turbines involved, it’s not difficult to see that the cost

“WE ARE AIMING FOR A 15 PER CENT SHARE OF THE MARKET WHICH MEANS WE ENVISAGE PRODUCING 16GW BY 2025”

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234MW

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Combined generating capacity of  
Cennergi's two wind power licences

of maintenance can be critical. The two wind farms currently underway account for 31 3MW units and 70 2MW units. Eventually, though, if Cennergi sticks to its plan of having 30 per cent of its portfolio supplied by wind power, there could be anything up to 2,000 units in operation by 2025.

In the meantime, the second technological cab off the rank is solar power. Cennergi has one photovoltaic project it has developed from scratch underway and a second it has acquired. In fact, it seems likely that this model of taking over independently produced and financed installations will play a large part in Cennergi's growth. "Now that the field is open to independent suppliers," says Garner, "there is every indication that many small-scale projects will be developed. But long term, such fragmentation is inefficient and it will be part of our overall strategy to offer these developers a way of realising a return on their investments while consolidating the independent sectors into a viable and sustainable block." **BE**

Cennergi has two  
photovoltaic projects  
underway

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## **CENNERGI**

**Block A, Ground Floor  
Lakefield Office Park  
272 West Avenue  
Centurion 0157**

**T +27 (0) 12 675 6655**

**[www.cennergi.com](http://www.cennergi.com)**

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