If coal power is becoming redundant, why are the Big Banks investing in it?

Environmental rights advocacy groups are questioning why major banks and state entities are investing in new-build coal-powered power station, when the South Africa is supposedly moving towards clean energy.

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A 2016 report by the Council for Scientific and Industrial Research (CSIR) showed that, besides being expensive, coal wasn't necessary in South Africa's future energy mix. Moreover, any new coal-fired power stations will effectively put the country at odds would with its climate change commitments under the Paris Agreement.

Application to Nersa

On 25 November 2016, Thabametsi Power Company (Pty) Ltd gave notice to interested and affected parties of its application to the National Energy Regulator of South Africa (Nersa), for a licence to operate 557,3MW of a 1,200MW proposed coal-fired power plant near Lephalale, Limpopo, under the coal baseload independent power producers procurement programme.

High court application

Earthlife Africa (ELA), represented by the Centre for Environmental Rights, has instituted review proceedings in the high court in August 2016 to have the environmental authorisation for this power plant set aside. ELA contends that the environmental authorisation was granted without any serious consideration of the climate change implications of the new coal-fired power plant, and on the basis that the plant would use a significant amount of water in a drought-stricken part of the country.

Not in keeping with Paris Agreement

South Africa has recently ratified the Paris Agreement, committing to pursue global efforts to limit temperature increases to well below 1,5°C, a decision which makes a rapid move away from the burning of coal essential. South Africa is particularly vulnerable to the impacts of climate change.

The CSIR found that having 70% renewables by 2040 was not only technically feasible, but also the cheapest option for South Africa by R90bn per year by 2040, even without taking into account the carbon tax.

Thabametsi is only scheduled to be commissioned in 2021, and plans to burn coal well past the year 2025 (by which date South Africa has committed in its nationally determined contribution (NDC), to peak its carbon emissions). There is therefore a very real risk that Thabametsi will not be able to operate for its full expected lifespan, and will become a stranded asset.

Why are big SA banks investing in new coal?

Thabametsi's application to NERSA cites the following banks as among those financing the project:

- Absa
- Nedbank
- Standard Bank
- Rand Merchant Bank (part of FirstRand Bank)
- Development Bank of South Africa (DBSA)

Speaking for the Life After Coal/Impilo Ngaphandle Kwamalahle campaign (consisting of the CER, ELA and groundWork), attorney Nicole Löser says that the campaign was alarmed to see South Africa's Big Banks committing to the financing of a project which entrenches the country's reliance on coal for decades to come – in circumstances where the burning of coal is a primary cause of climate change, and has far-reaching and devastating effects on the environment and on human health.

Stranded asset

"New coal will either mean that we are unlikely to meet our climate change obligations under the Paris Agreement, or projects like this will have to cease operating, and become stranded assets," says Makoma Lekalakala from Earthlife Africa Johannesburg (ELA).

"It appears that the banks have either not done a proper risk assessment, or they simply don't care about the implications of climate change," says Robyn Hugo, head of the CER's pollution & climate change programme.

Why is the PIC investing the UIF's money in new coal?

According to the Nersa application, shares in Thabametsi Power Company (Pty) Ltd are held 49% by offshore entities (Axia Power Holdings B.V. (24,5%) and Korea Electric Power Corporation (24,5%)) and 51% by onshore entities (Blue

Falcon 253 Trading Proprietary Limited (21%); Jenzoprox Proprietary Limited (15%); Business Venture Investments No 1879 Proprietary Limited (10%); and Mandlalex Proprietary Limited (5%)).

Blue Falcon is wholly owned by the Unemployment Insurance Fund (UIF). This fund is a statutory entity established in terms of the Unemployment Insurance Fund Act, 2001. According to Thabametsi, as at 30 September 2015, the UIF had existing committed investable capital amounting to approximately R2,3bn, which is managed by the Public Investment Corporation (PIC). Therefore the UIF effectively will have a 21% stake in the power station.

“The UIF provides relief to people who have lost their jobs or are no longer able to work due to circumstances such as illness. Is it appropriate to invest these funds in a project that could end up a stranded asset?” asks Bobby Peek, director of groundWork.

“Furthermore, how can a statutory entity like the PIC invest funds of another statutory entity in a way that will put South Africa in a position where it cannot meet its international obligations? The PIC should also be taking into account the significant detrimental health impacts that this investment will have on surrounding communities.”

Source: Centre for Environmental Rights