ENGINEERING NEWS
15 Feb 2013, p.7

POWER PRICES

Power(ful) Tales

OVER THE PAST FEW WEEKS, leading South African companies have gone to great lengths to offer practical case studies into just how damaging South Africa's recent power price rises have already been, while warning that further double-digit increases could be catastrophic.

JSE-listed steel producer ArcelorMittal South Africa (Mittal) – a top ten Eskom customer, having consumed 2.5% of the utility's sales in 2011/12 – has been particularly vocal.

It has already confirmed that its decision in October to shut its electric arc furnaces in Vanderbijlpark can be partly attributed to the electricity price increases and the prospect of yet more – the plants had also been struggling to operate within environmental parameters stipulated by the authorities, however.

These closures have reduced Mittal's nameplate production capacity to 6.5-million tons from 8-million tons a year and there are no immediate plans to restart the plants, in light of weak market conditions. No permanent jobs have been lost, but contract staff levels have fallen.

Mittal says that, despite major energy efficiency initiatives and the closures, it has still absorbed average yearly tariff increases of 18% a year over the past six years, raising power's cost contribution to 7% of total costs.

Eskom's initiative to buy back power from ferrochrome smelters is also having a negative impact on Mittal's commercial coke business, whose sales slumped by 27% last year. The unit, which shipped 995 000 t of commercial coke in 2007, recorded sales of only 460 000 t in 2012 as ferrochrome producers cut production in favour of power buy-backs.

Another outspoken opponent has been South Africa's newest gold major, Sibanye Gold, which has emerged from the unbundling of Gold Fields into separate South African and international businesses.

The miner consumes about 1.8% of Eskom's yearly sales and had a power bill of over R2-billion in 2012.

Its electricity costs rose by 169% between 2007 and 2012 and should Eskom be granted its request for five yearly increases of 16%, its costs will rise by another 110% between 2013 and 2018.

That would result in electricity costs rising from 9.2% of its cost base in 2007 to 23.4% by 2018, which would sterilise deep-level reserves, place material pressure on jobs, curtail production and reduce export earnings. In fact, Sibanye warns that up to 20 000 of its 35 227 jobs could be placed at risk.

These stories do little to help the National Energy Regulator of South Africa in grappling with the technical work required to come up with a well-balanced allowable revenue figure for Eskom. But they are surely weighing heavily on the minds of the regulatory members as the February 28 deadline for a determination nears.