

Botswana prepares to become regional power house

A shift in focus from physical coal exports to power generation could be the key to unlocking Botswana's latent coal resources.

The landlocked Southern African nation lays claim to more than 200bt of coal and the Botswana Government has spent the last six years investigating ways to exploit those resources via export. However, given the country's lack of infrastructure and coal's recent power price performance, the Government is now encouraging project owners to look to power generation as the most feasible pathway to development.

Speaking at the Botswana Resources Sector Conference in Gaborone, Onkokame Kitso Mokaila, Minister of Mines, Energy and Water Resources, said the Government was eager to encourage investment in greenfields power projects which could tap into Southern Africa's desperate need for more power generation capacity. In particular, the Botswana Government is working with its South African counterpart over the latter's desire to source up to 3,500MW of power from cross-border projects.

"It is part of the strategy of our coal monetisation plan," Mokaila told **Paydirt**. "We are engaged with the South African Government but it is not just South Africa which needs power. Namibia, Angola, Zambia and Mozambique are all in need."

Under the Government's Coal Roadmap, the intention was to identify and build infrastructure to service a coal export industry in Botswana but falling coal prices and the massive investment requirements of such a venture have forced both the Government and industry into a change of direction. However, Mokaila said discussions with other countries were still progressing.

"We are going ahead with a feasibility study on the Trans-Kalahari railway [through to Namibia] because we need to be ready for a change in circumstances. And, we were in Mozambique last month to refresh with them what we can do. We are not forgetting the Roadmap," Mokaila said.

Managing director of Econsult Botswana Pty Ltd, and former Deputy Governor of the Bank of Botswana, Keith Jefferies, told the conference it was doubtful an ex-



African Energy managing director Frazer Tabcart at the Sese coal project, one of three assets the company has in Botswana

port coal industry would ever be established in the country.

"Investment in coal exports is very lumpy, you can't build half a railway line,"

he said. "And, at current international seaborne coal prices, it is highly unlikely the private sector would take on the infrastructure funding required; the long-term

market is uncertain and it is increasingly unlikely that finance will be available for coal export projects.”

Jonathan Berman, managing director of South African energy and infrastructure investment firm Fieldstone Private Capital Group, agreed, saying the export coal industry was “dying”.

“Botswana should focus on building coal-generated power stations as part of the domestic and regional energy mix because that can be done much faster than building an export industry,” he said.

African Energy Resources Ltd – which has more than 14bt of coal resources under its control in Botswana – was expected to be a lead developer in the country’s export coal business but it has changed tack over the last two years to refocus on power generation.

“Our strategy is not to be a coal company, but to be a power company,” African Energy managing director Frazer Tabcart said. “The South African power programme has identified 3,750MW of cross-border power projects but other countries’ ability to participate is limited. Namibia doesn’t have coal, Zambia has limited resources, Zimbabwe is politically challenged and Mozambique is infrastructure challenged.

“Botswana on the other hand has almost unlimited coal resources for power. The reality is that the situation is looking better for Botswana coal than ever. There is potentially a whole new industry coming for the country.”

In April, the South African Government adjusted the terms for its coal base-load cross-border independent power producer procurement programme, allowing

the Department of Energy to start direct negotiations with developers rather than relying solely on a tendering process.

Tabcart said the change gave African Energy and its partners a clear opportunity.

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“It means projects which are ready to can start talking to the procurement group which is fantastic news for Botswana coal projects. Base-load projects mean 300-600MW and because of challenges in other countries Botswana has to be considered in the box seat.”

African Energy’s switch from coal miner to power provider makes sense at a time when export coal markets continue to falter in the face of slackening demand.

“ The reality is that the situation is looking better for Botswana coal than ever. There is potentially a whole new industry coming for the country.

“Exporting coal is impossible in the current climate and is challenging at best in the longer term but there is a market right now if we can generate power and we would be crazy not to participate,” Tabcart said.

However, he also recognised the challenges inherent in building large-scale power projects.

“The dollar value return on power projects is large and a lot lower risk than in mining where you are a price-taker. But, of course, the power project requires much higher risk upfront. These are long life projects that can cost \$700 million to build.”

Having struck a JV with First Quantum Minerals Ltd over its 5bt Sese project near Francistown and agreeing to sell its 1.2bt Mmamantswe project to TMC Consulting for \$US20 million, African

Energy plans to enter the South African IPP procurement programme through its 2bt Mmamabula West project just north of Gaborone.

In March, the company signed a joint development agreement with a developer to progress the power project.

African Energy completed a PFS on an underground coal mine two years ago but the project’s environmental impact licence is now being amended to include a 600MW power plant with associated grid connection.

“Although the project is not fully completed, there is no reason why we can’t be in serious negotiations with South Africa by the end of 2016,” Tabcart said. “Then, it is a question of how long it takes to negotiate the IPP agreement.”

Given the dubious track record of IPPs in the region, such statements could come with a “buyer-beware” caution but Tabcart said the South African Government had become fairly adept at the process.

“They have executed more than 100 renewable IPPs in recent years so they



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The Morupule B power station will provide an additional 300MW of power to Botswana's network but it is the opportunity to export power which has the country's Government most enthused

have the experience and they continue to streamline that process," he said.

Tabcart said the goal was to ensure the mine was optimised to provide the lowest cost fuel to the power station with the mine potentially supplying a number of different power projects.

"There is that potential, in which case it is probably better to fund the mine and power station separate," he said. "That way you have flexibility for any business situation."

Locally-listed Shumba Energy is preparing its own IPP bid incorporating two 150MW power stations at its Mabesekwa coal project, also near Francistown.

Managing director Mashale Phumaphi agreed the opening up of the South African IPP sector offered Botswana's coal sector a second chance.

"A regional energy market has huge potential and is isolated from the economic impact of China or the United States and we should take advantage of that," Phumaphi said during the Bot-

others.

"If Botswana could win half of the South African requirements you are talking \$6 billion of investment into Botswana. Then there is GDP around that. It will

employ a lot of people through construction and operation and there is tax revenue – corporate, withholding, PAYE, etc – and local content preferential treatment, etc, all adding to the economy," Tabcart said.

"Then, if you're in a position where domes-

tically you always have available power you can look to use it for the expansion of other industries; with smelting the obvious one. If you can double power capacity in Botswana, smelting begins to make a lot of sense. It is about building the industrial base of the country."

– Dominic Piper

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swana Resources Sector Conference. "If Botswana can get a decent portion of South Africa's 3,750MW requirements, it gives the country a new revenue source to diversify away from diamonds."

Tabcart agreed, telling **Paydirt** the IPP programme offered Botswana not only a new industry but the capacity to develop