

Huge investment opportunities

By HE SALVADOR NAMBURETE

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SALVADOR NAMBURETE was appointed Minister of Energy following the general and presidential elections in Mozambique in 2004. Previously he served as Deputy-Minister of Industry and Trade and prior to that as Economic Counsellor in the Embassy of the Republic of Mozambique in Washington, DC, and to the United Nations in New York. He holds a Bachelors Degree in Economics from Eduardo Mondlane University in Mozambique. He has a Masters Degree in International Trade and Finance from Lancaster University, and another in Corporate Finance from the American University in Washington, DC.

Thanks to recent discoveries of coal and gas, Mozambique is emerging as a global energy player, attracting huge investment inflows, and creating an important export market. At the same time, the country has enormous potential in the area of renewable sources of energy such as biomass, hydro, solar, wind, geothermal, tidal, and wave, among others, and which can play a key role in improving the lives of Mozambicans by providing access to electricity in rural areas.

With regard to the oil sector, Mozambique is a net importer of fuels for domestic consumption as well as for re-exportation to neighbouring countries. The participation of the private sector and the development of a competitive distribution market are important aspects of the policy approved by the Government for this sector. Several licensed petroleum companies are already operating in the country, distributing fuels for domestic and regional market.

At the same time, the shortage of power in Southern Africa is critical and requires massive investments in generation, transmission, and distribution infrastructures. There are a number business opportunities in Mozambique's energy sector, all of them with a regional dimension.

Mozambique's hydropower potential is estimated at 12,500 MW, the largest portion of which is located on the Zambezi River. So far, the only potential that has been developed is Cahora Bassa, commissioned in 1975, with an installed capacity of 2,075 MW, now majority owned by Mozambique Government, following the conclusion of its reversion process in late 2007. But there are several other sites downstream with major potential.

In keeping with Mozambique's national development strategy, as well as the need to harness the importance of regional energy projects, the Ministry of Energy's efforts are directed towards increasing access to reliable and affordable energy supply, promoting the productive use of energy, particularly in rural areas, promoting environmental sustainability, exploiting our abundant hydropower and renewable energy potential, and integrating transmission grids and pipelines to ease cross-border energy flows.

In pursuance of these goals, we are implementing a number of important national projects. These include the Mozambique-Zimbabwe Pipeline Company, which

for decades has been transporting liquid fuels from the port of Beira to Zimbabwe; the 800-km gas pipeline from Temane in southern Mozambique to South Africa, and which has been in operation since 2004; a 450-km oil pipeline from Maputo to South Africa, and the 95,000 m3 oil storage tanks at Beira, a joint investment between the national oil companies of Mozambique and Zimbabwe. An important oil refinery project with a capacity of 300,000 barrels per day is planned in Nacala-a-Velha.

Among the main achievements in our electricity sector has been the purchase of Hidroelétrica de Cahora Bassa (HCB) from the Portuguese Government. This was a very important political achievement, not only for Mozambique, but for the entire Southern African Region.

This has enabled the Government of Mozambique to negotiate new agreements and conditions for the supply of power to neighbouring countries through initiatives such as the Mozambique Transmission Company (MOTRACO), a tripartite joint investment project consisting of construction of interconnection power lines between South Africa, Swaziland and Mozambique. These lines are the property of EDM (Mozambique), ESKOM (South Africa) and SEB (Swaziland). It has been in successful operation since 2000. This is a US\$155 million investment.

Other initiatives include the Mozambique-Malawi Interconnector, consisting of a construction of 200km transmission from the Tete Substation to Phombeya in Malawi to supply power from HCB, with the possibility of its extension back into Mozambique to reinforce the capacity of the northern power system.

The Tete-Maputo 1,500km HVAC Transmission Line, also known as the North-South Backbone Transmission Line (NSBT), is being developed as a PPP on a BOT basis. This project is important for power transmission in Mozambique, as well as for export to neighbouring countries. Our national power utility EDM is the majority shareholder. Commissioning is expected to begin by 2013.

There are also three IPPs to be developed as PPP to meet the growing power demand in Mozambique and the deep and severe shortage of power in Southern Africa, particularly in South Africa. Our national electricity utility (EDM) participates in the development of these projects as a minority shareholder.

The combined generation capacity of these PPPs will be between 4,000MW and 6,000MW, and the combined investment is estimated at US\$5.3 billion. Considering the current situation and the prospects for addressing the power shortage crisis in Southern Africa, all of these projects offer significant investment potential.

Other important projects of interest to the international investment community are the Mphanda Nkuwa Hydropower Project, 60 km downstream of Cahora Bassa, with a total capacity of 2,400MW, and to be developed in two phases, for which a Consortium signed a Framework Agreement with the Government of Mozambique in December 2007. The commissioning of this project is expected to take place in 2013.

The Moatize Coal Fired Thermal Power Project, with a total capacity of 2,400MW, to be developed in two phases, next to the site of the Moatize coal mine. Phase I of the project contemplates the installation of 1,500MW capacity, for which a consortium signed a framework agreement with the Government of Mozambique in December 2007. Equipment supply contracts are currently being negotiated. The commissioning is expected to take place in 2014.

The cost of the Combined Cycle Natural Gas Fired Thermal Power Project for 750-1,000MW in Maputo province is estimated at US\$600 million.

The above projects provide opportunities for business either in terms of equity participation or in financing terms, through negotiations with implementing consortia.

Implementing these projects will increase the availability of energy at competitive prices, and cater for our power needs to supply power intensive projects in manufacturing, mining and agro-processing, which are necessary for the industrialisation of the country, at the same time that helping address the severe power shortage in the region as a whole.

To this end, an electrification program has been undertaken by the Government of Mozambique with the support of development partners, in the order of some US\$80 million per annum.

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address our rural electrification needs, as well as raising the living standards of our people through increased access to electricity

All the projects outlined here enjoy enhanced profitability prospects not only because our economy is growing but also because we are located in an economically dynamic region of 250 million consumers, and we seek to harmonise our policies towards regional integration.

Power demand in the SADC region has been increasing faster than our ability to increase generation capacity. The challenge is to, at least, keep pace with demand by investing in new generation capacity.

This challenge has been helped by the Southern Africa Development Community's Southern African Power Pool (SAPP), set up in 1995, and which has been in successful operation for a number of years adopting sound economic, social and environmental practices conducive to a competitive regional market to attract power intensive investments, and to ensure a sustainable energy development. In 2001 the Short Term Energy Market (STEM) was established, with the aim of working beyond long-term bilateral contracts.

SAPP is the first region outside Europe and North America to arrange a power pool for coordinated trading and joint investment in utility expansion.

In conclusion, there is huge potential to invest in oil and gas exploration, oil refining, oil and gas storage, transportation and distribution infrastructures, power generation, transmission and distribution or even in manufacturing and supply of electrical equipment, electrical materials and accessories for our electrification programs. It is within this context that we believe Mozambique is in a better position to meet the expectation of the potential investors in the energy sector, on win-win basis. E



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Mozambique will soon be a major gas exporter