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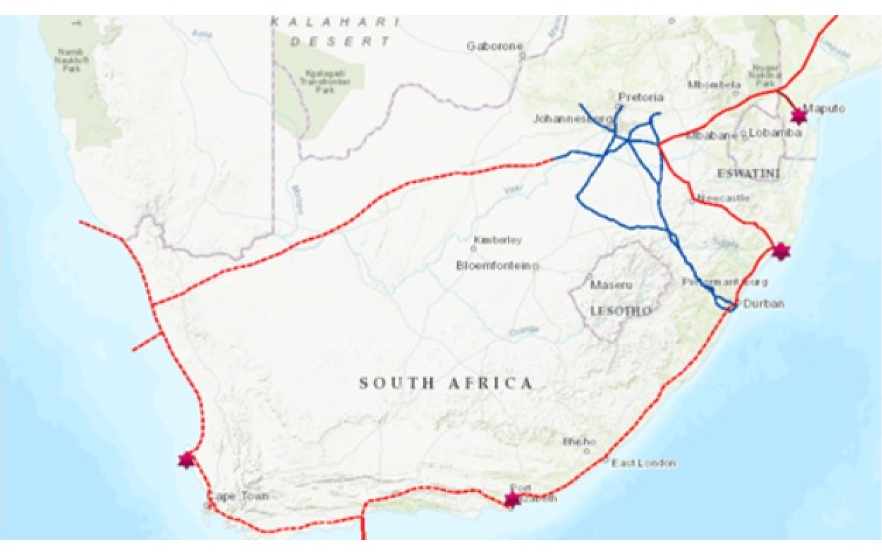
30 April 2025

Sasol delays South Africa's 'gas cliff'

The company will use methane-rich gas produced from local coal to temporarily replace lost supplies from Mozambique

The period of South African industrial reliance on gas sourced from Mozambique's Pande and Temane fields is in its closing stages, with supply from the fields due to end by July 2028.

South African energy and chemical company Sasol, which own the Rompco pipeline used to import Mozambican gas, said in April that it plans to use methane-rich gas (MRG) produced from coal at its Secunda plant in South Africa to delay the "gas cliff" for industrial power users by two years, to 2030.



Map of South Africa's pipelines. Map courtesy of Global Energy Infrastructure.

"Any kind of respite for industrial users is a welcome relief," said Stefano Marani, CEO of Renergen, which produces LNG and liquefied helium at its Virginia gas project in South Africa. Still, industrial users will need to know the exact constituents of the MRG, and whether it will need to be purified, he noted.

The longer-term solution is LNG, Marani added. South Africa is developing two regasification terminals, at the Richards Bay port and at Matola. Marani said it is "possible" that they will be ready by 2030, but doubted whether it is likely. South Africa was talking in 2012 about importing LNG by 2016, he noted.

Renergen has been producing LNG in South Africa since 2022. Phase two of the company's Virginia project will enable Renergen to supply 11PJ of energy to South Africa, Marani added. That will be a drop in the ocean, however, as Sasol is importing about 220PJ/yr.

The future LNG imports, Marani said, could be gasified for pipeline distribution, or offloaded cryogenically. In the case of gasification, "there is an entire power project that needs to be designed. Someone needs to identify and stick with a plan," he said.

Planning permissions have long lead times in South Africa, Marani noted. "There are critical milestones which need to be met. They are not as close to being met as people anticipate."

No gas utility

The Temane and Pande fields were first discovered by the US' Gulf Oil in 1956 and 1962, respectively. Sasol began importing gas from the fields into South Africa in 2004 as part of a strategy to reduce reliance on coal.

Gas now contributes about 3% of South Africa's energy mix, with use concentrated among industrial customers. One factor behind the gas cliff is the historical absence of a national gas utility in the country, said Paul Eardley-Taylor, head of oil and gas at Standard Bank, Africa's largest bank.

South Africa is the only G20 country that does not have a gas utility. This means issues that were dealt with by such utilities elsewhere were simply left with a private company, Sasol, by default, Eardley-Taylor said.

The situation, he said, is a "historical oddity. It is weird by global standards." The result, is that South Africa now has to create policy and regulations, and solve an industrial energy problem, all at the same time, Eardley-Taylor noted. Standard Bank is a financial adviser for the planned Richards Bay LNG terminal.

South Africa's NERSA energy regulator said in April that priorities include the procurement of new gas-to-power generation capacity and the conversion of diesel- and coal-fired power plants to gas. There should be a drive to expand the use of gas into transport and residential markets, NERSA said, backed by policy and regulatory measures.

There is "no way for South Africa to avoid the gas cliff in the near term," said veteran mining executive Tony Harwood. "South Africa does not have a long-term coherent strategy. This should have been resolved five or ten years ago."

South Africa-based Harwood is CEO of Montero Mining & Exploration, which focuses on exploration in Chile. He is considering mining projects in South Africa and has to take account of future power costs. The gas cliff is "very definitely a challenge", he said.

Harwood has no doubt Sasol can execute the plan but said it will inevitably drive up energy costs. The MRG plan is "just delaying the problem", he added.

Obstacles to independent power generators, Harwood said, remain "complex and onerous" and are "politically generated". Governing party the African National Congress lost its overall majority in elections in May 2024 and entered into a coalition with parties including the pro-business Democratic Alliance (DA).

The coalition has been showing signs of strain, with this year's budget being passed despite DA opposition to an increase in VAT. The DA, Harwood said, is "hamstrung by having a secondary position in government".

Higher prices

A pricing structure for Sasol's MRG will need to be agreed with regulators. The MRG prices are likely to be an intermediate step on the path to LNG costs, which may be around double what South African industry has been paying for Mozambican gas, said Darryl Hunt, director at Dynamic Energy Consultants in Cape Town.

The issue for industry, Hunt said, is complicated by the fact that LNG offtake agreements for the planned terminals are needed before the MRG price is known. "Things are not happening as fast as they need to. The decisions are in the here and now."

Hunt said LNG costs could end up being about double those currently paid by South African industry for gas from Mozambique. Renergen's Marani said that estimate might be on the low side.

South Africa's perception of whether something is affordable "needs to be seen in a global context," Marani argued. The country, he said, has benefited from "incredibly cheap" energy prices of about $0.09/kWh. That compares with $0.12.6/kWh in India, $0.16/kWh in the US and $0.25/kWh in Australia.

Marani likened complaints over increased costs to someone with a cold complaining about the price of tissues. "Take some vitamin C and get over the cold," he said. Industrial consumers "must learn to be competitive in a higher energy-cost environment".

South Africa's government does not have any money to help. Hunt said forward LNG purchases will mean credit risks, and that South African industrial players will "need to put their balance sheets on the line". The choice, Hunt said, is "either pay the market price or shut up shop".

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