

MEDIA CONFERENCE

STATEMENT BY MINISTER JEFF RADEBE, MINISTER OF ENERGY RE INDEPENDENT POWER PRODUCERS

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Background

Energy remains the primary driver to our socio-economic development. That is why matters pertaining the global supply of oil, gas, coal, nuclear, coal and renewable energy occupies centre stage of our public socio-economic discourse.

In recent times, matters of energy supply and security have come up sharply in our public discourse, particularly with regards to Eskom.

Today I want to take you through a brief chronology and the rationale behind why in the first instance we have renewable energy as part of our energy mix as stated in the various IRPs whose implementation is spearheaded by the Department of Energy, working in conjunction with other stakeholder departments.

Our Country committed itself to various global obligations on the combating of climate change whose devastation is already being felt across parts of the world. The late Minister Edna Molewa led a landmark Paris Agreement to mitigate and adapt to the effects

of climate change. South Africa continues to make a significant contribution to the global effort for a low-carbon and climate resilient developments.

The basic rationale behind renewable energy is therefore arresting the high negative impact of fossil fuel sources of energy such as oil and coal.

Energy Policy

The decision to introduce renewable energy into the electricity system can be traced back as far as December 1998 with the White Paper on Energy Policy which articulated the objective to stimulate the introduction of renewable energy sources into the energy mix.

In November 2003 the ANC led government adopted the White Paper on Renewable Energy which provided for renewable energy generation to be included in the energy mix, and set a target of 10 000 Giga Watt hours to be achieved by 2013. This was against a backdrop of Eskom generation being over 90% coal-based at that time, and South Africa having acceded to the climate change-driven imperative of migrating away from being a solely fossil-based mining-energy industrial economy. The Integrated Resource Plan 2010-2030 (IRP 2010) was consequently promulgated on 6 May 2011 after an extensive public consultation process, including NEDLAC. While finalising

the IRP 2010, social partners were consulted on all matters relating to the Renewable Energy Independent Power Producers (REIPP) programme. The IRP 2010 provided that by 2030, 17 800 MW of new capacity would be from renewable energy sources, 9600MW from nuclear, and other technology options like coal were also provided for under this IRP. In this manner government would be able to achieve its 2013 goal of 10 000GWh from renewable energy, and even exceed it. This was a prudent policy decision taken at that time, taking into consideration the projected electricity demand, our policy objectives and the regulatory framework outlined under the Electricity Regulation Act.

In 2015, the National General Council of the African National Congress adopted a Position which I paraphrase:

“The priority now is to identify and remove obstacles to increased levels of private sector investment, while sustaining the public sector’s contribution”.

“The competitive bidding system should immediately be extended to cover medium-term base load requirements, as outlined in the IRP2010 and in the draft IRP2014”

In addition the Vision 2030 under the National Development Plan (NDP) also envisages that:

“... South Africa must leverage its solar resource and regional hydropower opportunities as competitive advantages, in parallel with the responsible exploitation of fossil fuels and minerals. For this to happen, the country must invest in the skills, technology and institutional capacity required to support a competitive renewable energy sector.”

From 2011 to 2015 my predecessors, published Ministerial Determinations for 14 700 MW of new renewable energy capacity, after concurrence by Nersa, the energy regulator.

While finalising the IRP 2010, social partners were consulted on all matters relating to the Renewable Energy Independent Power Producers (REIPP) programme, including NEDLAC on the presentation of the IRP. Over and above these consultations, the Green Economy Accord (Accord) was negotiated with all parties involved and signed on the 17th November 2011 in Parliament. This Accord makes specific commitments by all stakeholders towards a greener economy in South Africa, including renewable energy with a target of 3 725 MW by 2016, one million solar water heaters and 300 000 green jobs by 2020. Present when signed, and also consulted beforehand, were 12 Cabinet Ministers, some of South Africa’s largest companies, small and medium enterprises from the Green Energy Associations, all three labour federations COSATU, FEDUSA and NACTU, and community representatives drawn from the youth, women, co-operatives, and civic formations.

The National Development Plan (NDP) was adopted in 2012 which furthermore stated that South Africa needs at least 20 000 MW of renewable energy by 2030.

The Renewable Energy Independent Power Producer Programme

In order to ensure a competitive, open, fair and transparent process, the Government established a procurement office, the Independent Power Producers Office, under the direction and guidance of the Department of Energy and the National Treasury. This mechanism of procuring the Renewable Energy IPP programme is aligned with the Public Finance Management Act (PFMA).

The Minister of Energy, acting in terms of the Electricity Regulation Act and the PFMA, and subject to the concurrence of the energy regulator NERSA, determined that the Department of Energy will procure new capacity and Eskom will be the buyer of electricity from the Independent Power Producers through a 20-year Power Purchase Agreement (PPA). This is backed by the Government Support Framework Agreement (GSFA) whereby government shall make support available to Eskom in an Eskom event of default.

No support is given in the event of private sector default.

Since 2011 a series of competitive bid windows have been offered to the market under the Renewable Energy IPP procurement programme. To date, 6 422 MW has been procured from more than 100 IPPs through 7 rounds and 5 bid windows (bid windows 1 to 4 plus bid window 3.5 which was only for concentrated solar PV with storage technology and two bid windows of the small renewable energy programme with a combined capacity of 200 MW). Presently a total of 3 776 MW from 62 Independent Power Producers have been connected to the grid. This is less than 5% of the total energy sold to the consumer. Without their contribution by the renewable energy IPPs the current load shedding would be much worse.

It is true that the early renewable energy programmes were relatively higher in pricing however, successive bid window prices have consistently declined, especially steep falls recorded from wind and solar PV technologies. As an example for wind technology the average price of the first Bid Window November 2011 was 151c/kWh and has fallen from to 62c/kWh in the Expedited Bid Round in 2016.

The Multi-Year-Price-Determination and regulatory framework

The renewable energy IPPs are cost neutral to Eskom as the cost is passed on to the consumer. Procurement through

competitive bidding allows for the best available prices at the time.

The calculation of the electricity price that Eskom charges to the customer or consumer, and as allowed by Nersa, is in fact a very simple process. Eskom provides Nersa the income or revenue needed to fully cover its prudently incurred annual costs which is then divided by the number of electricity units, measured in kilowatt-hours, which will be sold to customers during that year, as estimated by Eskom. This process is strictly regulated by Nersa through the Multi-Year-Price-Determination (MYPD) and the annual regulatory clearing account (RCA).

The prudently incurred cost includes purchases by Eskom of primary energy (coal, diesel, nuclear fuel, and water), as well as the electricity generated by the Independent Power Producers. Notably IPPs are not limited to renewable energy but include the diesel-fired generators at Avon and Dedisa plus Cahora Bassa from Mozambique. The regulatory model allows for costs related to production for example labour and the operations and maintenance cost of the generation facilities and lastly supply costs for example the costs related to the distribution and transmission of electricity from source to customer.

The electricity prices are highly regulated within the Electricity Regulation Act framework and by Nersa through the electricity pricing policy of 2008. Nersa also allows Eskom a return on

assets which is market related, cost competitive and appropriate for a regulated entity.

Nersa issues a licence to all IPPs based on full disclosure of information required, tariff and tariff escalation. A public participation process scrutinises the tariff before the licence is issued.

Before Eskom signs the PPAs, Nersa will issue an approval for Eskom to enter into the PPAs and confirm in writing that Eskom will be allowed the full associated cost under the cost recovery mechanism.

The assertion therefore that Eskom incurs losses as a result of the Independent Power Producer programme is without foundation, misleading and false. Since 2013, Eskom has not incurred a cent in buying electricity from the Independent Power Producers which they have not been able to recover through the tariff allowance. This treatment of REIPP cost applies to Cahora Bassa as well, and this is long established practice.

Eskom and the Impact of REIPP programme

Let us then turn to the Eskom's annual financial statements.

A peek at the financial statements of Eskom reflects that, after deduction of the cost of electricity bought from the Independent Power Producers, the EBITDA margin is positive in other words

the earnings (income) before interest payment, taxes, the provision for depreciation and the amortisation of assets. After the first renewable energy projects came on-stream in the 2013, Eskom presented an EBITDA number of R26 billion, nearly twice the earnings of the previous year. This points to one thing, Eskom's financial problems are mostly related to the cost increases, including the increased interest during construction, associated with the delay of the new-build projects, Medupi, Kusile and Ingula.

I want to emphasise - the cost of buying from the IPPs is included as an expenditure before the calculation of the EBITDA number, in other words after ALL operational costs have been paid, including the electricity from the IPPs, but before the payment of interest. Eskom is NOT borrowing money for buying the electricity generated by IPPs or for funding the construction of the IPPs.

Similarly, up to 2018 Eskom has presented annual positive EBITDA margins. It is therefore clear that the financial losses of Eskom cannot be attributable to the introduction of the renewable energy programme.

Does the renewable energy independent power producer programme cause a threat to Eskom and coal jobs?

Coal and the Renewable Energy programme

It is true that coal jobs are at risk in South Africa, but this is not as a result of the REIPP programme. Eskom has as early as in the IRP 2010 reported that it will be decommissioning some of the older coal-fired power stations which are reaching the end of their commercial and operational life. According to Eskom, by 2030, 13 000 MW of coal-fired capacity is scheduled for decommissioning.

As South Africans, and as stipulated and agreed in the Green Economy Accord, we have to ensure a responsible just transition to a cleaner future by finding ways to mitigate and addressing the risks to coal miners and their families, as well as the communities surrounding these coal-fired power stations. One of the outcomes of the Job Summit is the establishment of a presidential task team on climate change who will oversee the development and implementation of a just transition process for South Africa.

As we have seen with the procured coal IPPs, commercial banks like Standard Bank and Nedbank are no more willing to support these coal-fired power projects. This is an international phenomenon and the OECD Countries have also taken a hard line stance against the funding of coal projects, citing climate concerns. The World Bank and other international development finance institutions, as well as commercial banks have also instituted a no-coal policy. China, India, the USA and others have indicated that they are also downscaling their coal-fired fleets.

This however, does not mean we shall not procure cleaner coal-fired technologies in the future. Coal is part of the energy mix and due to the abundance thereof, South Africa would be hard-pressed should we abandon coal-fired generation. Our policy will become clearer with the imminent finalisation of the IRP update.

Local Content in the Value Chain

Within the REIPP procurement documentation local content targets have been set. In Bid Window 1 it was 25% and in subsequent bid windows it has increased up to 45%. With every bid window the local content target was substantially over-achieved.

Furthermore, significant capacity has been developed throughout the whole renewable energy value chain, from legal and financial services, manufacturing, design, engineering and construction skills, to the skills needed for the operations and maintenance of the renewable energy projects.

The decision by Eskom, since 2015, refusing to sign the PPAs for renewable energy resulted in the manufacturing capacity of goods and services in the value chain, closing down. The manufacturing capacity has been a result of the introduction of the renewable energy programme, and was foreseen as one of the positive outcomes in the Green Economy Accord. For example, due to this delay, the Coega wind tower manufacturing plant in the Eastern Cape, owned and operated by South

Africans, has been mothballed with the associated job losses. Eskom's actions contradicted the government's policy and was only corrected in 2018.

Renewable Energy, the Programme and its benefits

Let us now turn to the positives of the Renewable Energy Independent Power Producer procurement programme and ask ourselves can there be collusion and interference?

Although widely publicised, it is important to emphasise why the REIPP programme's bidding approach has earned world acclaim. The tender process and the awarding of contracts are fair, open and transparent and the security around the evaluation process mitigates the risks of corruption and interference.

The evaluation is conducted in a highly secured environment with video and voice recordings and by a multi-disciplinary team of independent external advisers in respect of legal, technical, financial and economic development disciplines.

The evaluation reports are thereafter reviewed by independent reviewers for consistency. In addition, each evaluation process is subject to scrutiny and monitoring by a governance and compliance review team comprised of independent audit professionals.

All bidders, evaluation teams, review teams as well as governance audit specialists involved are required to complete extensive declarations of conflicts of interest. Bidders are also required to declare that no collusion took place in the preparation of their bids. If found to have taken place the bids will be disqualified.

The final consideration and approval of the Preferred Bidders is conducted by the Bid Adjudication Committee of the Department of Energy (DoE).

The REIPP programme has received many awards over the years, of which the first award was from EnergyNet in 2013, as a recognition of the programme as the Best Renewable Energy Programme of the year and last was the Thompson-Reuters Project Finance International Award for the best programme on the Continent - 2018. This award was received on the 6th of February in London this year. Worldwide it is regarded as the “Grammy” for infrastructure projects, given its prestige.

I want to take you now through **the positive benefits** of the REIPP programme:

The REIPP programme has made significant impacts on the economy, job creation, community upliftment, economic transformation and climate change.

In a short 8 year period, it has attracted R209.4 billion in committed private sector investment, resulting in much needed

alleviation of fiscal pressure. South African entities such as Old Mutual, Red Cap, Phakwe, Pele Green, and many others, including the Central Energy Fund and the PIC, account for the majority of investment into the REIPPPP.

Renewable IPPs have created already 38 701 job years for youth, women and citizens from the surrounding communities. This means 38 701 people have had a full time job for one year. The reason for such a strange measurement is that during construction jobs will ramp up and down. Job years give a measurement in which you can fairly compare outcomes.

Local communities have already benefited from over R1 billion spent by IPPs on education such as upskilling of teachers, extra teachers and classrooms, and 600 bursaries to students from disadvantaged communities, the provision of health facilities and medical staff, social welfare such as feeding schemes, support to old age homes and early childhood development and support to and establishment of more than a 1 000 small enterprises.

Black South African equity shareholding in the REIPP programme has progressively increased with each bidding round. The South African equity shareholding across Bid Window 1 to Bid Window 4 and Smalls Bid Windows 1 and 2 equates to 52% (R31.4 billion) of total equity (R60.9 billion), which is substantially more than the 40% requirement.

Black South African companies such as Thebe, Kagiso/Tiso, Royal Bafokeng, H1, Halusani, Reatile, Phakwe and others own, on average, 33% of the projects that have reached financial close. Broad based black participation is also secured across the value chain through community participation, including in engineering, procurement, construction, operations and maintenance contractors where black ownership amounts to 21%.

Local community ownership is structured through the establishment of community trusts. Qualifying communities will receive R27.1 billion net income i.e. dividends from their shareholding over the 20-year life of these committed projects.

The consumer is protected from cost overrun, poor plant performance, mismanagement and etc. and in real terms, the consumer pays a fixed number escalated by CPI per annum or less for the duration of the contract.

The REIPP programme's contribution to our climate change objectives can also not be disputed with carbon emission reductions of 33.2 million tonnes (Mton) carbon dioxide (CO₂) and water savings of 39.2 million kilolitres achieved by 31 December 2018.

While I acknowledge the programme is not perfect and can be improved in specific areas, why do we not embrace a

programme that has done so much for the Country and has received international acknowledgement.

In conclusion I want to leave these final remarks with you:

Techno-economic shifts in a fast transitioning energy sector hold exciting opportunities for growth in our economy, but require renewed impetus in intergovernmental cooperation and suitably integrated and multi-sectoral approaches to optimise benefits to the country as a whole.

The energy sector is at the cusp of an exciting period, reminiscent of the huge changes brought about by rapid technological advancement in the mobile telephony industry in recent years. We need to be prepared for the disruptive times that the fourth industrial revolution will bring and adjust in a responsible way. Big centralised power generation plants will disappear and replaced by distributed generation, mini-grids and batteries. We must ensure that our youth will embrace the new technologies and move with the changing times.

We should not discard the investment made in renewable energy to date. The programme has not only secured additional MW capacity, but has also opened multiple opportunities for us to advance our manufacturing capacity and industrial development, as well as to participate in the value chain of new technologies. Furthermore, it has shown how important clear and unambiguous policy and regulation is. The 3 year delay in

signing the PPAs created market uncertainty which South Africa cannot afford.

The new political leadership has brought change that will lead to market stability and much needed investment. Energy is central to the economy and an enabler in ensuring human rights in respect of access to food and water. The inextricable linkages between energy, water and food are even more pronounced in South Africa, given the persistent drought challenges in recent years. We are at a crossroads where energy must play its fully intended enabling role. It is of great importance to the Country to acknowledge the linkages and for energy to bring the different sectors together.

Renewable energy generation plants, complementary hybrid technologies such as storage and the associated industrial value-chain activities will support the creation of jobs and better employment prospects, whilst at the same time manage our scarce water resources and bring down water usage and costs.

As indicated, practical solutions can be further explored to preserve and increase employment in sectors affected by the just transition to environmentally sustainable energy systems, with energy taking centre stage.

Pending a techno-economic feasibility study, new renewable energy capital investments could be directed to areas likely to

experience job losses from the decommissioning of coal-fired power stations, such as Mpumalanga and the Limpopo Province. I want to mention that I am participating in the World Bank Conference in Cape Town tomorrow, discussing the potential of storage in the energy sector.

At the same time, multi-sectoral interventions by government, labour unions and the private sector can be collectively implemented to reskill affected workers in the coal sector to align their capabilities to participate in industries surrounding their existing areas of work, in order to avoid relocation, while maintaining similar or improved income levels.

Energy can be the driver not only for electricity into the transmission grid, but also to supply water, i.e. desalination, rehabilitation and harvesting initiatives, no less in current coal mining and generation areas, as a step towards creating linkages to agricultural and other productive opportunities.

The rehabilitation of affected mining areas and the cleaning of water from closed mines for distribution to small farming and other end-user activities, hold significant opportunities for job creation while improving the quality of health and water in the affected areas such as Mpumalanga, Limpopo and the Free State. This will not only allow for addressing those areas and communities affected by the energy transition, but will also promote the most successful and cost efficient deployment of

utility scale renewable energy generation for the country as a whole.

However, to achieve prosperity for all, it means that Government and all stakeholders involve have to take hands and become a driving force for transformation and change. We should not be scared to embrace this change.

In the words of our icon, Nelson Mandela:

“Overcoming poverty is not a task of charity, it is an act of justice. Like Slavery and Apartheid, poverty is not natural. It is man-made and it can be overcome and eradicated by the actions of human beings. Sometimes it falls on a generation to be great. YOU can be that great generation. Let your greatness blossom.”

Let us take up the challenge, eradicate poverty and grow the economy for our children and their children, never forgetting our responsibility towards Mother Nature. If we do not look after our future there will not be a future. Renewable energy cannot be wished away. It is part of a responsible and sustainable future. Together let us work to grow South Africa!

I thank you