

Opinion Piece by Minister Jeff Radebe, 27 July 2018

City Press

Renewable energy independent power producer (REIPP) agreements will benefit South Africa in the transition to an environmentally sustainable economic future

The global energy landscape is changing rapidly towards the use of environmentally sustainable and affordable energy technologies. South Africa must adapt to this new 21st century environment, acknowledging the need to include a carefully planned transition to smooth the impact, however ensuring the survival of the planet for generations to come.

The facts

Towards 2010 South Africa experienced severe electricity shortages with Eskom focussing on completing Medupi and Kusile coal-fired plants. As a result Government decided to pursue alternative generation options. Renewable energy and private sector in generation is an ANC policy. It was first adopted by the 52nd ANC National Conference at Polokwane in December 2007, and re-affirmed by the 53rd ANC National Conference at Mangaung in December 2012.

During the 17th Conference of the Parties (COP17) in Durban 2011, the Renewable Energy Independent Power Producer (REIPP) programme was introduced to implement the objectives of the Integrated Resource Plan (IRP 2010-2030). Furthermore, it is supported by labour, business and civil society by signing **the Green Economy Accord** in November 2011, which highlighted the need to stimulate the green economy for a sustainable future with the intention of creating at least 300 000 green jobs by 2020.

Despite recent reports, and as confirmed by the Chairman, Eskom incurs no cost which cannot be recovered through the cost recovery mechanism. The Independent Power Producers (IPPs) fund their own projects and bear all risks, including the loss of revenue should their plants be delayed or not perform as expected. Eskom does not pay the IPPs until it delivers electricity to the grid. This is different from the traditional Eskom model where the consumer pays prior to the "first spade hitting the ground". Furthermore, IPPs do not reflect as contingent liability on Eskom's balance sheet therefore, having NO negative impact on Eskom. In fact, it gives Eskom certainty regarding an escalation per annum (CPI) and cost recovery.

As at March 2018, 62 projects with a combined capacity of 3776 MW, connected to the grid, contributing to the balancing of the system and saving the Country from load shedding whilst experiencing a shortage in coal supply.

The cost of renewable energy decreased more than 67% to R0.62 per kWh for wind and solar and attracted R201.8 billion of investment. The last bid window was majority owned by South Africans with black ownership increasing to more than 37%, while securing positions across the full value chain, which includes engineering, construction, operations and maintenance. For the first time poor rural

communities are owners of projects and can expect dividends projected to be around R29.3 billion over 20 years.

IPPs created 35 702 Full Time Equivalent (FTE)¹ jobs for youth, women and citizens from surrounding communities and spent R766 million to date on education, health, social welfare and enterprise development. Since 2012 about 600 bursaries were awarded to students to further their studies, provided support to local schools and support to small farmers. This support will increase to R27 billion over 20 years.

The Programme supports the commitments made by the Country under the **Paris Agreement** thus far having contributed substantially to climate change objectives i.e. reduction of 22.5 million tonnes of carbon dioxide (CO₂) and saving 26.6 million kilolitres of water.

The fallacies

The IRP 2010, mentions 10 920MW coal-fired power plants that need to be decommissioned in phases over 15 years to be replaced by 14 914MW of new-built coal-fired plants, including Medupi, and Kusile.

Coal-fired power plants are designed for a lifespan of between 35 to 40 years and the decommissioning of the ageing Eskom coal-fired plants was contemplated years before the REIPP. As plants are reaching the end of their lifetime, the performance decreases and it becomes expensive, specifically if not well maintained. The plants to be decommissioned have a further challenge with coal mines coming to the end of their production life. Eskom's decision to decommission is an economic decision with no relevance to the REIPP programme. Coal is being transported with trucks to some of the plants, which is inefficient and costly. This contributes to damage of the road infrastructure whilst increasing the risk of road accidents.

The updated IRP will balance South Africa's future supply and demand whilst ensuring the most affordable energy mix to the consumer. In order to grow the economy, the Country needs predictable and affordable electricity prices. Indigent households are already struggling with high electricity prices. It is increasing with more than inflation annually, which has a negative impact on the economy. Businesses are forced to reduce costs, including personnel cost.

NUMSA argues that Eskom produces electricity at R 0.42 /kWh and buy from IPPs at R1.88 /kWh whilst selling at R0.83 /kWh. This is inaccurate as not all Eskom generators produce electricity at R0.42 /kWh. The electricity price as announced by Nersa includes the cost of the buying from the IPPs, which devalidates the above argument.

Given the Country's history, a just transition in the energy sector is particularly important for South Africa, due to the high levels of poverty, unemployment and inequality, as well as the dominance of coal. REIPP has the ability to contribute to the transition agenda.

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¹ Using the Department of Public Works formula for calculating jobs