

**SPEAKING NOTES BY DIRECTOR GENERAL NELISIWE MAGUBANE OF THE DEPARTMENT OF ENERGY,
SOUTH AFRICA, AT THE COGENERATION WORLD AFRICA**

13 SEPTEMBER 2010

Thank you Programme Director;

Honourable Minister,

Distinguished Guests and other Industry players;

Good Morning

It gives me pleasure to be given the opportunity to address this conference today. I believe this conference will go a long way in contributing towards the development of our nascent electricity cogeneration industry.

Alongside demand side and energy efficiency interventions, cogeneration has become more critical than ever before, in the face of increasing global pressure to mitigate greenhouse gas emissions. Simultaneously to representing clean generation options, cogeneration opportunities are congruent with the least cost approach to meeting our energy requirements, and it is unfortunate that South Africa has

not taken full advantage, so far. Out of all the different approaches to power generation, co-generation represents for South Africa the lowest hanging fruit for generating electricity at a minimal cost. It can play a vital role in alleviating the current electricity shortage because of the related short lead-time.

As you are aware, the electricity demand-supply is precarious as we speak, with a reserve margin well below the comfortable band between 15%-19%. Last week the Reserve Bank of South Africa announced a decrease in the repo rate to a level last seen in 1979, as we try to stimulate economic growth. The slow pace at which the recession recedes represents some perverse relief to the electricity sector, because economic growth correlates closely with electricity demand growth. This means that the electricity system will become more strained, perhaps even to the levels that it was in 2008 when we experienced blackouts, if the South African economy grows at the levels that are necessary for job creation. The challenge for us as a country is to sustain economic growth without having to worry whether the increased electricity supply constraint will force us into blackouts.

Traditionally we have met this demand in the past by building more power stations, usually based on fossil-fired technology. We have not done this for almost 20-years, and Medupi and Kusile Power Stations represent the first major capital investment projects to increase our supply. It has become clear that the electricity business is no longer a sole government function but that the private sector must also play a vital role. Whilst the involvement of the private sector in the electricity business might not be the same as in most developed economies at this point, this is due to our legacy with a vertically integrated monopoly. Despite the different roles played by various spheres of government in the electricity space, we remain committed to providing a conducive environment for private sector investment in electricity generation.

The private sector has a specific responsibility to ensure that the transfer of skill and capacity building is an element that must accompany your investment programmes, for the betterment of our societies.

Most African countries have vertically integrated electricity structures with limited private investment. There is a need for additional generation capacity to meet the growing demand for electricity. Whilst there is need for new generation capacity across the continent, there is

great potential for investment in generating electricity through alternative clean energy such as hydro and other forms of renewable generation.

It is therefore imperative to allow private sector participation to assist in building the required new generation capacity. The Power Purchase Agreement (PPA) between the Independent Power Producers and the buyer is critical in balancing the risk between the buyer and the investor.

The private sector is expected to contribute significantly to electricity generation and in relieving government from the financial burden of building new generation capacity. However, it is acknowledged that government must play its role in ensuring policy and regulatory certainty of the electricity sector to ensure security of supply. Cogeneration presents the first opportunity for the private sector and government to design a mutually beneficial dispensation to support economic growth.

Perhaps the time has come for us to use cogeneration to trade across African boundaries. It is necessary for the countries to agree on common regulatory principles to facilitate the trade. We need to start unpacking the issues that affect bilateral contracts and address them.

The Southern African Power Pool has already taken the initiative to promote regional trading, but successful regional trading depends on regional network integration. Investment in the transmission infrastructure will assist in facilitating regional trading including private generation.

During the course of this year, the department intends to table a Bill to Cabinet providing for establishment of an independent buyer. The establishment of an independent buyer will be of utmost importance in attracting private sector investment in electricity generation because it will provide security to private investors that they will be treated fairly and in a transparent manner.

At this point, I would like to share with you the measures that will lead to the conclusion of more cogeneration in the electricity mix:

Firstly, we have set ourselves a target of November 2010 to conclude the Integrated Resource Plan, which will cover the period over the next 20 years insofar as electricity supply technologies. Through the IRP we will present a clear signal of our intention to harness even

more cogeneration opportunities beyond the current provision. The IRP will serve as an instrument to drive a number of our policy objectives, and I wish to highlight a few of them:

- renewable energy and climate change are matters that we are very serious about; we were very vocal in Copenhagen in calling on developing countries to firm up on their commitments, including supporting the funding and technology requirements in the developing world. The IRP will make provision, on a voluntary basis, to set South Africa on a path that reduces our greenhouse gas emissions.

- Diversification from coal is another objective. The primary driver for diversification is energy security in the main, but we are also alive to the geo-political pressures for a low carbon economy, particularly given the context of South Africa in the league of high greenhouse gas emitting countries.

- Interconnection with our neighbouring countries also gives us an opportunity not only to improve our energy mix by harnessing the hydro-potential in these countries, but is also bodes well for economic development in SADC as a whole.

Secondly, revamped regulations for new generation capacity will be introduced, in order to provide more certainty regarding roles and responsibilities of the regulator, the buyer and the independent power producer. You might be aware that clarity needs to be provided around matters like cost recovery, the power purchase agreement, grid connection and other matters that are currently perceived to be obstacles in the way of cogeneration in particular.

Thirdly, the matter of the buyer is a critical one. During the course of this year, we intend to table a Bill to Cabinet providing for the establishment of an independent buyer, in a phased approach. The establishment of an independent buyer key in attracting private sector investment in electricity generation, because it will remove the conflicted role that Eskom plays vis a vis private generators.

Investors need to be assured that they will be treated fairly and in a transparent manner.

In conclusion, I must take the opportunity to clarify some confusion around the matter of power wheeling through the electricity grid. The Electricity Regulation Act provides for, amongst others, an exemption from licensing requirements when generating for own use. In addition, under section 22(3) provision is made for third party access. To me it is conceivable that a generation plant can be constructed by a private sector entity to supply their own needs. It is in fact our intention that those that are able to provide relief to the national utility, by building their own generation capacity, should be encouraged. Should there be any specific circumstances that prevent us from taking advantage of such opportunities, I invite you to contact my department so that we can find a way. We are in urgent need of megawatts and must work together to achieve a common objective.

I thank you.