COMMENTS BY Ms DIPUO PETERS, MP, MINISTER OF ENERGY OF SOUTH AFRICA REGARDING THE WORLD BANK LOAN: UNION BUILDINGS, 12 MARCH 2010

Chairperson,

Minister Hogan

Members of the media

Ladies and Gentlemen

As you are aware, last month NERSA pronounced on the tariff determination for Eskom which will cover the multi-year period from 2010 to 2013. Pursuant to the power station Build Programme, Eskom has applied to the World Bank for a $3.75bn loan, to finance the building of Medupi coal-fired power station. The World Bank decision on the loan application is due to be considered in April 2010.

Certain stakeholders have expressed misgivings about the suitability of the loan application, citing environmental concerns relating to coal-fired power stations. It has therefore become incumbent upon us to clarify certain matters regarding these concerns.

An incorrect impression has been willfully created that South Africa intends to continue building more coal-fired power stations. This is being repeated in an attempt that seems oblivious not only to the impact of such a programme on climate change, but also on the opportunity cost of renewable energy generation. Wide coverage has been given to those who are opposed to the application by Eskom, whilst we are of the view that the silent majority does indeed support our quest to ensure that there is long term energy security for our country and our region. We therefore want to state quite categorically that the completion of the Medupi power station is inevitable, and the acquisition of the World Bank loan should therefore be supported.

We urge our people to appreciate and recognize the role of Medupi in the electricity supply-demand balance in our country. This is also in line with the clean energy programmes that South Africa has voluntarily adopted in our quest to reduce greenhouse gas emissions and consequenetly mitigate the negative impact of climate change. We wish to put the South African power station program into perspective.

Firstly, the South African supply-demand situation requires that a base load power station be commissioned by 2013. This will be done in order to avoid black-outs and its consequent negative economic impact. It was in anticipation of this possibility that Medupi Power Station construction commenced in 2007. This power station will satisfy the South African power demand as well as that of the Southern African Power

Pool (SAPP). Without Medupi being completed, the consequences for our sub-region will be dire as a result of the shortages that will ensue.

The loan application will make Medupi a reality, given the attractiveness and timeous availability of the funding. Without the World Bank loan, South Africa will not be able to meet its power needs and this will hinder the kind of economic growth that will be able to break the back of energy poverty and consequently create new employment opportunities. We have also considered alternative funding options and not only will these be more costly, but they will also delay the commissioning of Medupi due to the time it would take to negotiate a new transaction. We do no have the luxury of being afforded with such a possibility.

Secondly, from an environmental viewpoint, we took a conscious decision to compel Medupi to be fitted with flue gas desulphurisation technology (FGD) to reduce its emissions and to comply with the minimum requirements for such fossil-fired power stations. Government has modeled the various scenarios that can address climate change concerns related to "business-as-usual" coal-based power generation.

In this regard, the Integrated Resource Plan (IRP) is an instrument that defines our power station investment programme, indicating the different technologies that can be used over the next 25 years. IRP1 covers the period up to 2013, and over the next 3 years, we intend to diversify our energy mix to include 10 000GWh (or 5%) of renewable energy generation, as espoused in the Renewable Energy White Paper of 2003. This will be achieved through the introduction of, amongst others, the 100MW Sere Wind and the 50MW concentrating solar power (CSP) projects in the Northern Cape.

In addition, we will introduce 1 million solar water heaters in the domestic sector. This will be done as an energy efficiency measure to displace the electrical load which is a direct result of water heating. This programme which will focus on the the domestic sector will be complemented by an incentivized industrial energy efficiency program, or Energy Conservation Scheme, in terms of which large industrial consumers will receive a rebate (the standard offer) as they reduce their electricity consumption to set targets. NERSA has already provided for the rebate in their latest tariff determination.

It is our intention to promulgate IRP2 later this year (2010) which will define the power portfolio beyond 2013. IRP2 will be responsive to energy security, climate change as well as financing considerations. It will also pronounce on the technology that will be used for base-load power stations post-Medupi. It is likely that the next base-load power stations will be nuclear-based.

Whilst the renewable energy feed-in-tariff (REFIT) dispensation is being supported in IRP1, it is under IRP2 that renewable energy power generation is expected to take off in earnest, and new targets will be set in IRP2. The World Bank loan application was coupled to the Clean Technology Fund (CTF) portion, in terms of which $500m should be made available to support CSP and Sere as well as other renewable

energy technologies. CTF will also facilitate the development of smart grids to connect clean energy projects.

South Africa takes its environmental responsibilities seriously and with the fortitude that it surely deserves.

In line with government intentions to reduce the carbon footprint, the Department of Energy has taken several initiatives aimed at reducing the country's carbon footprint. These include the following:

- We first indicated our interest in carbon capture and storage by joining the Carbon Sequestration Leadership Forum in 2003.We are currently finalizing the Carbon Geological Storage Atlas whose results we shall release before the end of this year. The purpose of the Atlas is to locate and characterize potential geological storage sites for carbon dioxide. This will form the basis for future geological storage work in South Africa.

- The South African Government, through the DoE, has partnered with the Clinton Foundation regarding the development of an industrial solar park concept, focusing specifically on the Concentrated Solar Power (CSP).

- We are a key participant in the Clean Development Mechanism (CDM) which is the vehicle for us to obtain funding to implement clean energy projects. Given that our economy is coal based, there is a great potential in the CDM initiatives from renewable energy, energy efficiency, cogeneration and energy generation from waste.
- We are currently working with the Department of Public Works to finalise regulations which will ensure that there is indeed energy efficiency in government buildings and this will be subsequently expanded to include the general building and construction industry by next year.
- We have recently joined IRENA. This is an international renewable body dedicated to ensuring that there is collaboration among its members in relation to technological developments in this important area of renewable energy.

I thank you!