



energy

Department:
Energy
REPUBLIC OF SOUTH AFRICA

**DEPUTY MINISTER'S ADDRESS DURING THE ECONOMIC REGULATOR'S
CONFERENCE AS PRESENTED BY MS THANDEKA ZUNGU.**

20 AUGUST 2012

Programme Director

Members of the Regulatory Boards in our midst;

Captains of the Energy Industry

Distinguished Ladies and Gentlemen

Good morning.

It is indeed a great pleasure to be given this opportunity to be part of this auspicious occasion. Let me start by thanking all those who have worked hard to prepare for this conference together with all the participants for dedicating time to this important event despite your busy schedules.

We are gathered here today, to search for answers to the modern day energy challenges that are facing us especially here in South Africa, and perhaps in the world at large. This conference is organized under the theme *“How can South Africa’s economic regulators contribute to cost-effective delivery of essential infrastructure in the face of key financial, social and environmental imperatives?”*

Whilst South Africa has enjoyed one of the lowest electricity tariffs in the world, the position is quickly changing. In the face of dwindling electricity generation capacity, new investments are necessary. A number of challenges related to the security of electricity supply, have arisen in the past few years, and it is in that context that it became imperative to conclude a plan that will address these challenges.

The Integrated Resource Plan

Cabinet's approval of the Integrated Resource Plan (or IRP) was groundbreaking for South Africa as it defined a tangible plan for embarking on a low carbon energy future with energy efficiency and demand side options central to the plan.

There are a number of realities that we have to face in our desire to introduce environmentally benign technologies like wind, into the energy mix:

Firstly, the relative impact that South Africa will make in mitigating adverse climate change through the IRP in particular, is a drop in the ocean compared to what China and India can contribute, yet the financial contribution of our ambitious programme is huge. There are certainly much cheaper adaptation options that we could pursue as a country, particularly energy efficiency and other demand side interventions.

Secondly, we do not have the financial support of the international community as envisaged under the climate change discourse at the Conference of the Parties. COP 15 saw South Africa announce an aggressive target relating to greenhouse gas emission reduction, subject to financing and technology transfer being made available. Irrespective, the IRP was approved on our own volition, notwithstanding that none of these conditions were satisfied.

Thirdly, the global economic slowdown has somewhat made financing more difficult, thus reducing the urgency to introduce new generation capacity. This does not mean we are out of the woods yet, it simply means that we have some breathing space. Government has learned from the load shedding experience of 2008 that the reserve margin and other security indicators have to be improved to constitute a comfortable supply-demand situation. We recognize that renewable energy technologies will improve the reserve margin, yet they provide relatively low capacity factors in comparison to fossil-fired technologies.

Lastly, there is an enormous upward pressure on electricity tariffs as we embark upon an intensive capital investment cycle. The extent to which tariffs can continue to rise is constrained by considerations relating to affordability, competitiveness and economic impact. We must not take for granted the extent to which the renewable energy programme costs the country, relative to its benefits. Consequently it becomes imperative on us as government to set clear objectives for such programmes, outside of the narrow climate change debate.

Infrastructure

Partnerships are critical as we embark on the massive capital expansion programme announced by the President of our country. We have always held the view that government alone cannot solve all our challenges. We remain committed to ensuring that there is space for private sector investment in the electricity generation sector in our country. We are indeed working around the clock to make the regulatory regime more conducive to increased private sector participation in this industry.

You will recall that it has been about 20 years since South Africa last commissioned new power plants. In the 1980's and early 1990s we experienced reserve margins higher than 30%, over a long period of time, and it was therefore not necessary to build new power stations for a sustained period.

It is common knowledge that our reserve margin has now declined to unacceptably low levels and that our capital investment programme as espoused under the Integrated Resource Plan, will only provide the necessary relief once Medupi Power Station is commissioned.

This brings me to the question of private sector participation in new generation capacity going forward. This commitment was born out of the realization that it is critical for the Independent Power Producers (IPPs) to be brought on stream to complement Eskom, given the reality of the financing requirements of the IRP. It has not escaped us that IPP participation in the power sector is necessary for a number of reasons, including (i) the

opportunity to benchmark Eskom's performance in the development of new generation capacity, (ii) the leveraging of private capital to extend our ability to build more power stations, and (iii) the transfer of the technology, construction and financing risk to the private sector.

The regulatory regime continues to be revamped in a parallel process, for the introduction of non-Eskom generation. It is well appreciated that South Africa is, unlike many Western European and North American situations, essentially a power island with neighbouring countries lying to its North. As such, we do not have the luxury of an interconnected grid network which allows reliance on our neighbours for support.

Financing the IRP

Financing support for infrastructure development is an important starting point. The financing of economic infrastructure has become very challenging given the global financial crisis that continues to threaten the economies of the developed world. Notwithstanding that the current credit situation remains tight, international financial institutions need to increase their assistance for project development in Africa.

The lack of financing for infrastructure projects in Africa has some of its reasons anchored in the poor regulatory environment. It is vital that we identify regional projects to increase the integration and interconnection of the sub-region, initially through power initiatives and ultimately through other trade initiatives. Failure on our part to address this situation will continue to put enormous responsibilities on our meagre resources and hamper the ideals of uplifting the rural poor, especially women and youth.

Investment in energy infrastructure must have inherent energy efficiency ethos so that we can increase access to modern and clean energy, without compromising either energy security or the environment.

We are aware that as a continent we cannot do this alone. It is imperative that the international community play an integral part to overcome the funding impediments

afflicting Africa in particular and developing countries generally. I must reemphasize that, as research points out, unless there is collective focus on building capacity for regional and continental planning and harmonization of regulatory frameworks, the continent's development will remain a pipe dream.

The social programmes have to be rolled out side by side as we increase our supply capacity. The absence of bulk infrastructure, especially in rural areas, constrains our ability to reach universal access to electricity. There can never be a better life if we don't have electricity in our health facilities and our children continue to study in the dark! Positive socio-economic impact is significant in that it enables us to keep track of the extent to which electricity has contributed to the improvement of the lives of the communities and to further identify opportunities for the creation of a substantial number of jobs for rural communities.

In the late 90's to early 2000's, the focus was on the reform of the power sector. This was seen within the context of excessive state involvement in the power industry and the inability of state utilities in general to deliver on their mandates, due to factors like inadequate maintenance of infrastructure and poor revenue management through inaccurate billing.

The mid-2000's has seen a drive towards the establishment of independent utility regulators, the liberalisation and the unbundling of electricity sector. As a continent we are at different stages of reform. We are also aware that the abilities of governments to deliver social services differ from country to country.

The high demand for energy is driven by increased economic activity. More and more, there is a need to exploit projects across political boundaries, particularly clean energy opportunities like hydropower. Most of the cross-border projects have yet to materialise because amongst others, the necessary Power Purchase Agreements prove tricky to secure and interconnections cannot be done successfully. The Grand Inga Hydropower scheme is among the projects that stand out as a large untapped resource and I am happy that we are making progress to make this type of regional project a reality.

Interventions

A number of policies and strategies have already been developed and approved to ensure that we approach the value chain of electricity supply in an integrated and sustainable manner. Further policy is being developed to support

- Co-generation;
- Renewable Energy;
- Imported power, and
- life extension of existing plant

As we invest in energy infrastructure to ensure improvements in energy efficiency, access to modern and clean energy, and thus ensuring energy security, we also need to be mindful of the economic benefits that can be derived through local manufacture of energy technologies. In addition to this, regional trade provides significant opportunities for cost savings, economic benefit and less carbon intensive power generation. Increased regional trade will no doubt put Africa on a cleaner development path as compared to a scenario without trade.

The regional power pools that have gradually been established in the continent are playing a crucial role in laying the basis for cost-effective regional electricity supply and successful grid extension programmes in rural areas. We are pleased with the remarkable progress that has been made through various African power pools initiatives.

Clean energy

The energy sector currently accounts for a large percentage of CO₂ emissions, which directly contribute to climate change. It is clear that without delay, we implement practices that will reduce demand, choose cleaner sources and deploy the best available energy technologies that will also create much needed jobs. Such practices

not only reduce energy consumption and CO₂ emissions but are often low cost, quickly deployable and can stimulate job opportunities.

It is unfortunate that the increasing demand for electricity cannot be met without a negative impact on the environment as coal is still the primary fuel needed to drive the bulk of the world's power stations and South Africa is no exception to this overall picture. As a developing nation, we need electricity to drive social and economic change. Ninety-two percent of our electricity is generated using the country's plentiful coal resources. The result is that we generate carbon dioxide and greenhouse gases that are pumped into the atmosphere. Reaching a happy medium between the need for electricity and the reduction of environmentally damaging emissions places South Africa in the same situation as many other nations.

Government has pledged itself to ensuring that all South Africans have access to electricity. Our implementation partners, Eskom and municipalities have over the years extended their networks and through electrification projects brought quality of life and economic opportunities to many in underdeveloped areas.

We can work with other nations towards finding ways of reducing emissions and so relieve the burden on our environment. At home we can concentrate on educating our people and gaining their support to create an energy efficient nation which values its electricity and participates actively in conserving this valuable resource.

Looking at South Africa's international commitment to the environment, I am pleased to say that government has been steadfast in mainstreaming environmental considerations in all our infrastructure decisions.

There is no doubt, however, that immediate benefits for the environment can be achieved in South Africa in the short-term if we all consider just how we are using

electricity. By taking action on a personal level to reduce waste, we can today begin the process of saving electricity and contributing to the health of our environment.

Every South African can be part of the process. By making individual contributions, no matter how small, we can save energy. We can, through our actions ensure that as Eskom builds new capacity we develop habits that are ultimately beneficial to the health of our families. By reducing the need for coal and making better use of generating facilities we will also be safeguarding our environment for future generations.

It is our view that this conference will provide us with the opportunity not only to reflect on the challenges that our communities, especially women and rural poor, continue to encounter on a daily basis. This conference also provides the opportunity to discuss coherent regulatory and policy frameworks that support the development of thriving markets for new and renewable energy technologies and recognize the important role of the private sector. This includes removing barriers; allowing fair competition in energy markets; and taking into account the concept of internalizing external costs for all energy sources.

We are aware that as a Continent we cannot do this alone. The international community is integral in assisting us to address some of these impediments in Africa, particularly on infrastructure development, finance and technology transfer, to fully achieve the set targets.

I wish you all, fruitful deliberations.

Thank you.