
Remarks by Minister of Energy, Hon. Jeff Radebe At The
MINISTERS INSIGHTS, POWER SECTOR
Africa Oil and Power Conference

06 September 2018

Hall 9, CTICC2

Honourable Ministers from Kenya, Togo, Benin, Sao Tome and Principe and Republic of Congo

My Colleagues Ministers Responsible for Power and Energy

Senior Government Officials Here Representing the Various Governments

The Director General of Energy: Mr Thabane Zulu

CEOs & Chairpersons Here Present

Honoured Guests

Ladies and Gentlemen

Good morning

Almost 95% of South Africa's electrical power requirements is supplied by State Owned Power Utility, Eskom.

Within the current fleet of our fully operational base-load plants, 10 out of 11 power stations are located in Mpumalanga. This amounts to 80 % of total power generated by Eskom, excluding the newly built Medupi and Kusile. Mpumalanga province is host to a number of our

coal mining companies, hence the bulk of our coal power stations located closer to primary fuel.

Eskom operate 23 power stations with a total nominal capacity of 42 090MW, comprising 36 000 MegaWatt (MW) of coalfired stations, 1 800 MW of nuclear power, 2 400 MW of gas-fired, 600 MW hydro and 1 400 MW pumped storage stations, as well as the recently commissioned 100 MW Sere Wind Farm.

South Africa maintains 368 000 kilo-meters of power lines to transport generated electricity to load points throughout the country. This topology is widely referred to as Centralized Power Generation. Due to distant load centres, the reliability of power supply is dependent on the Transmission and Distribution networks as well.

Over and above our local power production, South Africa buys electricity from and sells electricity to the countries within the Southern African Development Community (SADC). This regional buying and selling is enabled by the Southern African Power Pool (SAPP) whose offices are located in Harare, Zimbabwe.

Renewable Energy Sector:

The South African Renewable Energy Independent Power Producer Programme (REIPPP) is a competitive tender process that has been designed to facilitate private sector investment into grid-connected renewable energy (RE) generation in South Africa.

Independent power producers (IPPs) are invited to submit bids for onshore wind, solar photovoltaic (PV), concentrated solar power

(CSP), small hydro, biomass, biogas or landfill gas projects. There qualification process is designed in two-stages, first bid stage is the evaluation stage which requires bidders to meet minimum compliance requirements such technical specification, financial/lending requirement and local shareholding. Thereafter bidders are evaluated based on price (bid tariff) and economic development criteria in the second stage.

Starting year 2011 to year 2015 four such bidding rounds have been completed, these rounds are referred to as Bid Windows. Up to year 2015, 390 bids were submitted resulting in just 92 of these bids being selected for procurement of 6,328 MW amounting to R193bn (USD 20.5bn) in investment. Such investment is mix of local funding and foreign direct investment. Additionally, an Expedited Bid Window (BW) was run in 2015. This was designed primarily to provide bid projects that had been unsuccessful during prior rounds with a second opportunity to bid. 1,800 MW was made available for tender under this Expedited BW, with bid submissions in November 2015.

Since inception, the REIPPP bids have shown a declining trend in bid prices, this as the result on maturing investor confidence and fierce competition amongst bidders.

Overview of the REIPPP Procurement Process:

The REIPPPP has been designed as a series of tender or auctions that are initiated by the issue of a combined Request for Qualification (RFQ) and Proposal (RFP). Each auction makes available a total amount of megawatts (MWs) in specific technology categories. Bids

are generally due within 3 months of the RFP and are screened initially for compliance with general requirements and qualification criteria.

Compliant bids are then evaluated on a comparative basis and Preferred Bidder status is awarded to the highest ranked projects within the total MW allocation and within each technology.

Financial Close (FC) and signing of contracts is expected generally within 6 – 9 months from the preferred bidder status award and Commercial Operation Dates (CODs) generally within 18-24 months of FC. These timelines are indicative and improve with each successful Bid Window.

Upon selection of the Independent Power Producers bidders through the two-staged process as outlined above, the respective IPPs are appointed as Preferred Bidders. Thereafter they are given about six weeks to finalize their lending arrangements towards reaching of Financial Close. At financial close, the Rand/Dollar exchange rate is fixed on the day. Bidders are also required to sign standardised, non-negotiable, rand (ZAR) denominated 20 year Power Purchase Agreements (PPAs) with Eskom. Prices are indexed to inflation.

The PPAs are supported by an Implementation Agreement (IA) between the IPP and government (DOE), which, along with a Government Support Framework Agreement, effectively guarantees Eskom's payments for the duration of the PPA, subject to IPP plant availability.

There are also other standard documents that form part of the REIPP programme such as the Direct Agreement (DA) between the IPP, Eskom, the DOE and lenders, which provides the lenders with step-in rights in the event of default. Grid Connection Agreements (CAs) are also required to manage in the IPP plant and grid interface.

IPPs are responsible for the costs of shallow grid connections (such as from the power generating plant to the nearest substation), whilst the utility (Eskom) is responsible for deep grid connection costs (such as those related to strengthening Eskom transmission/distribution system as the case may be).

Once IPP's have successfully reached Financial Close, construction phase starts for the respective projects. IPPs are expected to comply with provisions of the Implementation Agreement from construction stage and throughout the period of the Power Purchase Agreement. Critical to the IA are the commitments to empower local businesses and communities. This area is critical for the government as it will stimulate development of the local renewable energy industry.

Government acknowledges that monitoring of compliance with IA provisions needs urgent strengthening as it has proven to be a challenge. Urgent work needs to be undertaken by our government to ensure compliance.

Review of Ongoing Renewable Energy Projects:

On the 4th of April 2018, we announced signing of additional 27 projects procured under the Renewable Energy Independent Power Producer Procurement Programme Bid Windows 3.5 and 4. These 27 projects are located in the different Provinces throughout South Africa and includes technologies such as solar photovoltaic (PV), wind (Wind), concentrating solar power (CSP), biomass and small hydro plant.

The recent procurement of the 27 new projects was the biggest IPP procurement by the Department of Energy to date, representing a total of R56 billion of investment and about 2300 MW of generation capacity to be added to the grid over the next 5 years.

This investment of R56 billion is injected by the private investors into the economy, with no contribution from Government other than support to the state utility, Eskom, in the event of a default by the buyer. We expect that this will have a positive impact on the economy and competition in the energy sector will certainly benefit the consumer in the long run.

New foreign and local direct investment expected from these project should provide a strong economic growth impetus in support of our economy (the South African economy) wanting to lift its head at a time of severe local fiscal constraint. Furthermore, it is expected that this investment will certainly have a positive effect and contribute to the much needed jobs in the rural areas of our country where these projects are located.

With the signing of the agreements South African government did not only re-confirm its commitment to renewable energy, but also to a solid partnership with the private sector in the generation of electricity, which includes among others coal and gas, while pursuing our energy transition objectives for the future. We expect that these projects will reach FC by end of this calendar year and commence construction.

Over and above the expected economic benefits of this programme, the renewable energy programme is confirming South Africa's commitment, together with 195 other countries around the world, to the Paris Agreement for the reduction of CO₂ emissions worldwide. It also makes us part of the ever and fast changing global world of a renewable energy industry.

The 27 projects are expected to offset 8.1 million tonnes of CO₂ per annum.

Legislative regime, licensing and market entry:

South Africa has, centrally controlled electricity generation planning and procurement system. The Electricity Regulation Act of 2006 and associated Electricity Regulations on New Generation Capacity, issued in November 2010 and May 2011, assign responsibility to the Minister of Energy to develop an Integrated Resource Plan.

Furthermore, the Minister is empowered through section 34 of the Electricity Regulation Act to make procurement determinations in consultation with the Energy Regulator on what new generation capacity is needed, from which sources, and who should be developer. Either the state utility (Eskom) or an Independent Power Producer can be declared as the intended developer.

The National Energy Regulator of South Africa (NERSA), established through the NERSA Act is mandated to issue electricity generation licenses for any generator wishing to connect to our Transmission or Distribution grid. In issuing generation licenses, is bound by section 34 determinations issued by the Minister of Energy.

Other legislative requirements include compliance with our local environment laws for project of this nature and magnitude. Project developers are expected to apply for an environmental approval licenses through the Environmental Impact Assessment process

Competitive pricing, compliance with project's technical requirements as well as environmental laws are key to market entry in South Africa. The government provides revenue certainty to these projects by guaranteeing future revenue streams for the duration of the Power Purchase Agreements. This guarantee is subject to plant availability.

Investment Opportunities and Next Steps for Investors.

South Africa's economy has been growing at an average growth rate of 1,5% for the past five years.

The Government of South Africa has set a target to attract **\$100 Billion** of investment into our economy. It therefore follows that such a target will need to be supported by investment in energy development. Any industry in the world is intrinsically linked to energy consumption.

I have stated on many platforms that energy should contribute a minimum of **\$25 Billion** of this targeted investment.

Thus we invite all investors in the energy sector to seriously consider South Africa as a developing country with a huge potential to grow in a politically stable environment.

In conclusion: I want to reassure you that South Africa is open to business and we welcome Foreign Direct Investments.

THANK YOU