

Operation Vulindlela Workshop

Input on Energy Sector Reforms

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Assessment of energy sector reform of the 6th administration

• Negatives

- the REIPPPP process was undertaken too slowly
- the RMIPPPP was poorly designed and clouded in controversy,
- the restructuring of Eskom, as outlined in government's 2019 *Roadmap for Eskom*, advanced too slowly and was marred by leadership instability,
- there were mixed messages on the implementation of the Just Energy Transition
- planning for transmission grid investment was inadequate, constraining new electricity generation investments,
- in most areas of the country electricity distribution systems continued to weaken along with local government capacity and finances,
- there was no effective progress on tariff reforms needed to align tariff structures with the evolving structure of the country's electricity sector, and
- the Draft IRP 2023 that was released for public comment lacked credibility and was out of line with other government policies

• Positives

- the removal of licensing requirement for own generation had a major impact in mobilizing new generation capacity,
- the decision by government to take on a large share of Eskom's unsustainable debt played an important role in improving Eskom's performance,
- the negotiation of an offer for JETP concessional finance and grants increased resources available to finance the JET,
- through the EAP and Nekom, society was mobilized around a multipronged strategy to end loadshedding and advance the country's energy transition, and
- the Presidential Climate Commission played a key role in providing evidence-based research on South Africa's energy transition and consulting a wide range of communities and constituencies on the process.

Priorities for energy sector reform for 7th administration

- *Where do you see South Africa's energy sector five years from now? What are the key risks and opportunities as the sector reforms?*
 - The risks over the next five years include a highly unequal electricity system where the well-off have generally access to electricity, based on own generation, and some support from weak and failing distribution systems, but poor households have very limited access to reliable electricity supply and there is increasingly reliance on illegal connections.
 - The opportunities over the next five years include the mobilization of large amounts of public and private investment in generation, transmission and distribution infrastructure based on a reliable, low cost, low carbon model, and supported by a restructured Eskom and modernized pricing and incentive models appropriate to a distributed and mixed ownership electricity sector.
- *What are the implications of this reform process for Eskom, and how should Eskom position itself as the sector evolves?*
 - Due to the techno-economic shift globally away from vertical integration to distributed power generation, Eskom will not in future be an exclusive generator of electricity and this is why it is important that the transmission and distribution entities of Eskom operate independently for Eskom generation so as to provide services and equal treatment to all electricity generators.
 - As such, public policy must lead the process of reshaping the energy sector and Eskom must be restructured so that it is fit for purpose in taking this process forward. The interests of Eskom will at times conflict with the interests of energy sector reform. For example, given its balance sheet constraints, Eskom's Transmission entity may wish to implement a slower pace of transmission infrastructure investment than is required by the broader electricity sector.
 - Similarly, form must follow function within government structures, and government should keep separate the electricity sector 'policy' function and its Eskom 'shareholder' function

Priorities for energy sector reform for 7th administration

- *How do we navigate the political economy of reform in the energy sector? Who are the winners and losers, and how do we prevent the latter from slowing down reform?*
 - A wider economic perspective is required in defining 'winners' and 'losers' resulting from the energy transition. Up to now the just energy transition has been defined too narrowly. The focus has been on ensuring that workers and communities from coal-producing areas and around coal-fired power stations
 - A full cost-benefit analysis would show the overwhelming net economic benefit of an accelerated energy transition that restores energy security, widens access to electricity, decarbonizes, contains electricity costs, stimulates growth and investment, and reduces unemployment across a wide range of economic activities.
- *There has been significant debate about the role of “baseload” capacity in the energy system, and what the ideal energy mix for South Africa looks like. How should we approach this, and what role should energy planning play in a competitive market?*
 - What must be stressed is that it is technically possible for large renewables plus flexible generators and storage to provide security of supply . Many countries around the world are implementing such an approach and as such have a higher percentage of renewable energy than South African currently does.
 - This needs to be economically modelled in more detail, but it is very likely that the expansion of renewable generation capacity plus grid extension costs will come in as more competitive, as the full economic costs of coal, gas and nuclear plants need to take into account the relatively high capital costs (and time frames) of such projects, as well as the cost of dollar-priced imported gas and related exchange rate risks over time (given that domestic gas feed stocks are not proven and even if they are will priced in global market terms).

Priorities for energy sector reform for 7th administration

- *The lack of available grid capacity in regions with rich solar and wind resources is a key challenge to investment in new capacity. How should we approach private investment in transmission infrastructure?*
 - It is vitally important that South Africa overcome its grid constraints – both at transmission and distribution levels.
 - Eskom's Transmission Plan, known as the TDP, has been widely endorsed. Under the TDP, however, the proposal is to build most of the transmission lines in the outer years of the currently defined 2023-2032 ten-year period, mainly due to balance sheet constraints. There are two levels at which this process could be accelerated.
 - Firstly, the transmission line build process could be brought forward through developing a framework for private-public partnerships, such as through Build Operate and Transfer contracts, to facilitate private sector investment in independent transmission projects.
 - Secondly, a model could be developed for IPP's to invest in connector projects to link their generation capacity to the transmission grid. This will require certainty as to allowing other parties to use this grid capacity, as well as pricing incentives for the IPP investors.
- *How should we address the weakness of many municipalities in the reform process? How will their role change going forward?*
 - Restructuring the electricity sector and improving Eskom's structure and performance is necessary but not sufficient to solve the problems facing the sector. Local government infrastructure, finances and capacity is weakening, at the same time as the macro structures of the electricity sector are slowly being resolved. This is a major blind-spot that requires urgent attention.
 - To solve this Operation Vulindela, or its methodology, is going to have to find ways to impact at local government level.
 - Part of the solution needs to be tariff restructuring, including increasing the Distribution fixed-charge network charges component and introducing a residential time of use (TOU) tariff plus a new net billing offset rate for those with small-scale embedded generation.

Priority Areas for OV in energy sector reform

- OV will need to navigate the new environment of the GNU and contribute to its agreed minimum programme
- To achieve this and meet elevated expectations, it would be important that the OV be institutionally strengthened without losing its focus and impact.
- In the electricity sector, the following focal areas should find an important place in OV's programme going forward:
 - **More coherence and consensus is needed in the narrative around JET** – the aim should be to position JET as a growth driver, showing its significant potential for investment and industrial activity and employment creation;
 - Action is needed on **models for private sector investment in the country's transmission grid, grid connector systems and distribution systems**; and
 - Attention needs to be paid to the financial and electricity **infrastructure crisis in local government and related tariff structure reforms**.