

SA's energy landscape is evolving, partly driven by climate change goals

By [Jason van der Poel](#)

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The focus on clean energy at COP26 is helping to drive a number of welcome changes in the South African energy sector. Some of these changes have also been necessitated by new technologies, Eskom's funding issues and its need to align with global trends away from monopolistic, state-owned utilities and towards more competitive electricity markets.



Jason van der Poel, partner at Webber Wentzel

South Africa's IRP 2019 currently suggests that 750MW of new coal will be added in 2023 and 2027 and the country should have about 33,000MW of installed coal-fired generation capacity by 2030, taking decommissioning into account. The plan is to extend the life of the Koeberg nuclear power station.

By 2030, it is also envisaged that SA will have about 8,000MW of solar PV, 17,000MW of wind power and 6,000MW of gas/diesel. Together, solar PV and wind would contribute about a third of SA's installed capacity, or about 24% of annual energy generation, by 2030.

However, this plan needs to become more ambitious to align with climate change goals.



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Schedule 2 amendments

Reforms on embedded generation are encouraging further private sector participation in the generation space, although it

will, for some time, be a relatively small percentage of total installed capacity. These reforms will create new generation capacity without the government guarantees required by the Renewable Energy Independent Power Procurement Programme (REIPPP).

The main amendment to Schedule 2 of the Electricity Regulation Act is in paragraph 3.1. It now exempts an electricity generation facility, with or without storage, with a point of connection to the transmission or distribution grid and with a capacity of no more than 100MW, from licensing by Nersa. However, the facility needs to be registered with Nersa. The amendment also envisages battery storage, wheeling to multiple customers and electricity trading.

There are still some outstanding issues around these amendments, including the consistency of wheeling regulations to be issued by Eskom and municipalities, and grid capacity.

The amendments are important because they will allow many intensive energy users to generate their own electricity quickly, for security of supply, to contain the rising costs of Eskom-generated electricity and to reduce their carbon footprints, in light of the significant global decarbonisation drive. They are also expected to unlock significant investment in new generation capacity in the short and medium term, increasing the available supply of energy and reducing the burden on Eskom.



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Renewable energy

Through the REIPPP, the private sector has already contracted to provide 6,500MW and this contribution is set to increase under the IRP 2019, which is the country's roadmap for an energy mix to 2030.

We are expecting that the announcement will be made on preferred bidders for Round 5 of the REIPPP by end-October 2021 and that the announcement will be followed by the release of the request for proposals for Round 6 of the REIPPP. Round 7 is expected to follow in the first half of 2022.

There was a lot of interest in Round 5, with 102 bids submitted, amounting to about 10,000MW of potential projects for about 2,600MW on offer. There is quite a lot of discussion under way on whether the REIPPP should be structured to favour South African businesses and whether it needs to be realigned to match grid capacity.

An assessment of the grid capacity in 2021 shows the Northern Cape corridor is highly constrained and cannot handle more generation than has currently been approved.



Eskom unbundling

South Africa's electricity market is moving towards one with multiple buyers and sellers of power, with the transmission and distribution grid remaining in state control.

Eskom's first steps towards unbundling are taking place internally. It is now operating with separate generation, transmission and distribution divisions. This is already increasing efficiencies. Eskom wants to have a separate transmission company established by the end of next year, but there are still many uncertainties over how Eskom's R400bn of debt will be allocated among the three entities and, if they are faced with this large debt burden, how they will raise new capital.

Municipal energy generation

Amendments to the Electricity Regulations on New Generation Capacity, 2011 were made on 16 October 2020.

Up to this point, only organs of state active in the energy sector were permitted to procure new generation capacity. As a result of the amendments, municipalities may apply to the minister for the procurement or purchase of new generation capacity in accordance with the IRP 2019. To do so, municipalities must submit a feasibility study; prove they have complied with the Municipal Finance Management Act (MFMA) and the Municipal Public-Private Partnership Regulations; and submit proof that the application is aligned with their Integrated Development Plan.

The conclusion of power purchase agreements between buyers or procurers and IPPs will also be subject to any approvals required by the MFMA or Municipal Systems Act, together with the Public Finance Management Act.

ABOUT THE AUTHOR

Jason van der Poel, partner at Webber Wentzel

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