

Hiding your light under a bushel

14 January 2020

From a news flow and publicity point of view, an extraordinary thing happened in December 2019. The last cabinet meeting of the year was on Friday 13 December. That was also the week of stage 6 load shedding and when the president said there will be no load shedding before 13 January 2020. The normal post-cabinet news conference, where (some) details are given of what cabinet discussed, took place on Tuesday 17 December. At that news conference the only news on Eskom was that the cabinet had asked if André de Ruyter could start earlier than 15 January. (He started on Christmas day with visits to Eskom power stations.) I read the news in disbelief. Was that the best cabinet could come up with, given stage 6 load shedding?

Then on Wednesday 18 December the president, under his own name, published an opinion piece in the Daily Maverick setting out in full what cabinet had decided about the energy crisis. I reprint it below word for word so that you can draw your own conclusions. For me it was a very clear and powerful statement of where government is going with Eskom in particular, and energy in general.

Here is the extraordinary thing: NO other news outlet carried this announcement by the president. Not the Business Day, not the Financial Times, not News24, not Netwerk24 (normally quite sharp in picking things up), not the SABC ... nobody! If I missed this anywhere and it was published elsewhere, please let me know. A senior Business Day journalist referred to it in a tweet, describing it as 'the first positive sign in ages that Cyril Ramaphosa (is) in control', but not a word in Business Day itself. Talk about hiding a light under a bushel ... most extraordinary.

The Eskom saga has now spun so out of control that rational discussion is almost impossible. Speculation, conjecture, dark theories, even darker predictions, and fake news are all presented with the certainty of the newly converted. It may be more helpful to read what the president said his cabinet decided.

So what? (from the president's note that follows)

- Energy users will be allowed to generate power for their own use.
- The Minister of Mineral Resources and Energy and the National Energy Regulator are fast-tracking applications for industry and business to produce and use their own electricity. Government is determined to remove the bureaucratic constraints from self-generation.
- The purchase of power from independent producers will be accelerated.
- Renewable energy projects currently under construction as part of bid window 4 are being connected to the grid earlier than planned. This should bring extra capacity into the system in the first half of 2020.
- For the short term, government has launched a power purchase programme, which will prioritise power projects that can deliver power into the grid in the shortest possible time – between three to six months from approval. (Return date is 31 January 2020.) This is where so-called 'power ships' fit in.
- An immediate priority is the establishment of a new transmission entity, wholly owned by Eskom, that can buy power from a range of sources (a long-standing ANC resolution that was ignored under Zuma).

These decisions by cabinet confirm the conclusion in our December newsletter that the next big frontier in investment in South Africa will be energy – wind, solar and gas. We stand by that call.

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A new era in energy generation by cm Ramaphosa

Published in the Daily Maverick on 18 December 2019

In the midst of the latest spate of load shedding, a fundamental shift in the country's approach to power generation has gone largely unnoticed. This change will have a far-reaching impact on the sustainability, efficiency and capacity of the energy sector.

In the wake of the hugely damaging power shortages of the last two weeks, government has agreed — in keeping with the Integrated Resource Plan (IRP) 2019 — to allow users to generate power for their own use and to accelerate the purchase of power from independent producers. In effect, the path has been cleared for the expansion and diversification of energy production on a significant scale.

While this approach has been part of government policy since the promulgation of the IRP in October, the crisis at Eskom has meant that these measures need to be implemented with greater urgency and on a larger scale. These measures aim to ensure that the country can produce enough electricity to meet its needs, and that load shedding no longer becomes necessary to ensure the stability of the grid.

With the publication of a Request for Information (RFI) last Friday, government has launched a power purchase programme to fill the current short-term supply gap and to reduce the use of expensive diesel generators during peak times. The programme will prioritise power projects that can deliver power into the grid in the shortest possible time, between three to six months and six to 12 months from approval.

Through the RFI, government will be able to establish the potential for new power production in the country and to align that electricity procured is affordable and in line with the energy mix outlined in the IRP. From the end of January, which is the deadline for the submission of the RFIs, government will identify projects that should be given the green light to proceed.

At the same time, work is under way to ensure that renewable energy projects currently under construction as part of bid window 4 are connected to the grid earlier than planned. This should bring extra capacity into the system in the first half of next year.

While bringing more power into the grid is a priority, government has identified the need to open up the space for electricity users — both big and small — to generate electricity for their own use. The Minister of Mineral Resources and Energy and the National Energy Regulator are fast-tracking applications for industry and business to produce and use its own electricity. Government is determined to remove the bureaucratic constraints to self-generation and have those users with the capacity producing their own power.

While these measures will increase the amount of electricity produced independently of the national power utility, Eskom will benefit from these new arrangements. The IRP suggests that the country has a short-term energy supply gap of around 2,000MW to 3,000MW. When we visited Megawatt Park last week, some Eskom managers said that this is closer to 5,000MW.

This is what needs to be added to the grid to ensure security of supply in the immediate term. Importantly, however, it is also what is needed to give Eskom breathing space to take some of its power stations offline to perform much-needed and long-overdue maintenance.

There are a number of sources from which this immediate-term additional capacity can be procured. The Southern African Power Pool members, who can supply electricity from various generation sources including natural gas and diesel, come to mind. Another source with quick turnaround times would be the floating power barges with gas turbines that some countries on the African continent and elsewhere have used to great success.

While several factors have contributed to the load shedding that has been experienced over the last two weeks, at the centre of the crisis is the failure of Eskom to undertake this fundamental maintenance across all its power stations. This includes the mid-life maintenance required to extend the life of the older power stations.

Eskom has not been able to undertake this maintenance due in large part to the huge cost over-runs of the new build programme, increasing fuel costs, poor revenue collection and the cost of servicing its substantial debt. It has also not had sufficient reserve capacity to take out units for extended periods of time to undertake essential

maintenance.

In addition to the problems with the existing power plants, the new power stations, Medupi and Khusile, are coming online far later than planned and — due to design and other faults — are not yet performing optimally.

Additional energy supply from other sources would therefore help Eskom to get back on track and become a more reliable, cost-effective generator of electricity. Instead of weakening Eskom's position in the electricity sector, new producers will assist the company in achieving greater efficiencies.

This approach aligns with the Roadmap for Eskom published in October, which, among other things, outlines the process for the restructuring of Eskom into three subsidiary businesses — generation, transmission and distribution. An immediate priority is the establishment of a new transmission entity, wholly owned by Eskom, that can buy power from a range of sources, including Eskom's own generation entity, independent power producers and producers from neighbouring countries. Following clear least-cost principles, the transmission entity would then supply this electricity into the grid. The interventions that government is now taking means the new transmission entity will have a ready pool of suppliers once it is established.

Although they will provide some relief, these interventions will not solve the problems at Eskom. There is a deeper challenge in the institution, ranging from its severe financial situation to inadequate adherence to its maintenance programme, and from a growing deficit of technical skills to poor procurement practices. These are some of the challenges that are currently being addressed through Eskom's nine-point plan adopted in November 2018, and which will be at the top of the to-do list of the new CEO, André de Ruyter, when he starts work in January.

For now, our immediate priority is to get as much generating capacity back online within the shortest possible time and to end the need for load shedding. The Eskom leadership has presented an emergency recovery plan, which aims to restore the reliability and performance of the system, with minimum load shedding in the December period and in particular when the country opens for business in the new year. Through a rigorous maintenance plan, Eskom plans to have recovered about 2,300MW by mid-January.

While government has told the Eskom leadership that they will be held to account for disciplined adherence to this maintenance plan and will be assisted in every way to ensure it succeeds, the prospect of load shedding will remain until more generating capacity is brought on stream through these immediate interventions.

Together with the restructuring of Eskom, the urgent measures we are now undertaking to procure and enable additional generating capacity will fundamentally transform energy in South Africa for the better.