



The South African Independent  
Power Producers Association  
4 Karen Street  
Bryanston  
Sandton, 2196  
14 September, 2022

National Energy Regulator of South Africa  
526 Madiba St  
Arcadia  
Gauteng, 2019  
Att: Mr Mondli Shozi  
Email: [irp-procurement.techrange@nersa.org.za](mailto:irp-procurement.techrange@nersa.org.za)

Dear Sir:

**SAIPPA's RESPONSE TO NERSA CONSULTATION ON MINISTERIAL  
DETERMINATION FOR 1000MW, dd 26 AUGUST, 2022**

**Thanks**

We thank you for the opportunity to provide input into the consultations on the "Concurrence with the Ministerial Determination on the Procurement of New Generation Capacity of 1000 MW from Other Distributed Generation", published 26 August, 2022.

**SAIPPA**

The goals of the Independent Power Producers Association of South Africa are to promote the collective interests of IPP's in South Africa, to assist with public policy formation and implementation, and to serve as a platform for information dissemination to its members. We seek broad industry reform resulting in competitively priced, reliable and readily available electricity in a regulatory environment that is transparent, certain and IPP friendly.

**SAIPPA Membership**

SAIPPA currently has 45 paying members that include large and small companies in the paper, chemical, food, cement and energy industries. Some of these companies in turn are the dominant players in their industries, and have some of the larger IPP generation assets in their portfolios. In addition our membership includes service providers, consultants, energy lawyers, academics and project funding institutions.

**GENERAL ISSUES:**

There are a number of general issues that we would like to bring to the Regulator's attention:

\* this Ministerial Determination brings to mind the 2020 Determination for 2000MW of Emergency Generation, under the same "Other" technologies contained in the relevant column of Table 5 of the IRP 2019. It is common cause now that this procurement is fraught and we refer you to SAIPPA's presentation to the public hearings for the Karpower license applications. In this presentation we pointed out that the DMRE's procurement had deviated from the IRP2019 provisions, just as this new Ministerial Determination has, and its procurement is likely to do.

NERSA's questions that are posed do not deal with the broader issues associated with the execution of the IRP plan, by DMRE and Eskom. A higher level of input from the general public is required, that teases out the deep seated problems in the industry, and NERSA's regulation of it. A suggestion for additional questions that should be posed by NERSA are:

\* Is NERSA fulfilling its role, overseeing the "...orderly development of the industry.." What improvements are suggested?

\* Is this Ministerial Determination aligned with the IRP requirements?

\* Has the execution and procurement of NERSA concurred-to Ministerial Determinations been successful?

\* Should DMRE publish a comprehensive plan for the execution of the IRP plan, including when and what Ministerial Determinations are to be published, and when the procurement milestones will be achieved?

\* Finally a comment about the validity of Ministerial Determinations. The current DMRE DG was asked a year or so ago about the 1 800MW of cogeneration that was Determined and concurred to within IRP2010. Nothing has been procured. His reply was that all Determinations from a previous IRP fall away on the gazetting of a new IRP. This seems to make sense as one wants the new plan to replace the old. However, with the knowledge that a new IRP is being modelled (refer NECOM), do all of these recent Ministerial Determinations that have not been procured yet, including the August 2022 set, similarly fall away?

#### **BACKGROUND:**

There is a background that is important to this draft Ministerial Determination as it should initiate investment in cogeneration in the industrial and commercial sectors, but for the reasons detailed below, is unlikely to do so. The following event time line is directly relevant to this Ministerial Determination:

\*IRP 2010 included a column for "Other" technologies that did not fall into the other columns for "PV", "Wind" etc. The gazetted IRP2010 included an Appendix that covered the urgent need to procure Cogeneration and "Other" generation technologies. This did not take place.

\* 2 Ministerial Determinations followed that are directly relevant to cogeneration:- 800MW then a second for 1000MW totalling 1800MW. An RFP was then issued for the procurement of cogeneration power that was a failure. The only bid received was for a 15 MW plant in KZN that did not reach financial close, due to the RFP being unsuitable for the wide variety of cogeneration applications – a classic case of "One size does not fit All". SAIPPA went to great lengths to explain to the then managers at IPP Procurement Office why the RFP was a failure.

\* 2015 and 2017 – GIZ the German Development Agency who have been contracted to DMRE in the SAGEN programmes funded a study and an update to a report issued entitled “Cogeneration Potential in SA”. Through interviews with existing and potential cogenerators, over 6500MW of cogeneration potential was identified, per industry in SA.

\* IRP 2019 – through BUSA’s involvement in the Nedlac processing of what became IRP2019, the “Other” technologies column in Table 5 was made from a combination of “Other (Cogen, Biomass, Landfill)” and “Distributed Generation” and was upped from a suggested 200MW/a to the 500 MW/a.

\* Ministerial Determination for 2000MW Emergency Generation, July 2020 – this followed from NERSA’s concurrence and correctly stated “...2000MW ....allocated under “Other” for the years 2019 – 2022 in Table 5 of IRP 2019...”

\* RMIPPPP RFP – the procurement that then flowed for the Emergency Generation Ministerial Determination was so written as to exclude any of the “Other” technologies. The IPP Procurement office proclaimed the RFP to be “technology agnostic” however the requirements for instant despatch, the construction time frames and for greenfield plants excluded all thermal technologies other than ‘off-the-shelf’ gas to power. The results are now obvious – no “Other” technologies were bid and the allocations for “Others” was taken up by Gas, PV and BESS. Clearly very contrary to the IRP plan, and one can speculate as to whether it is contra vires as it does not comply with the gazetted Ministerial Determination.

\* August 2022 Ministerial Determination for 1000MW from “Other” technologies. What is planned, using the Eskom Standard Offer platform, is again fatally flawed for any investment in “Other” technologies, as envisaged in the IRP 2019. The huge cogeneration potential for stimulating and enhancing SA industrial and commercial base will again be squandered.

### **Section 1: DEFINITIONS, ABBREVIATIONS AND ACROYMS:**

Definition of Cogeneration is wrong. The international understanding of Cogeneration is the combined production of heat and power (CHP) in any process and is definitely not limited to the industries that are listed in this definition. It was the development of the COFIT by NERSA from 2006 through to 2011 that introduced industrial “wastes” as being part of cogeneration. The definition used in this Determination would exclude the wide variety of CHP possibilities in commercial, hospital, shopping centers, and all other industrial processes where elevated temperatures are needed for heating, drying, reactions, crystallising and the like.

### **Section 2: BACKGROUND:**

As above.

### **Section 3: NEW GENERATION CAPACITY FROM OTHER TECHNOLOGIES:**

3.1 The allocation of 2 years of the IRP 2019 plan to this Ministerial Determination is too limited. Typically these “Other” technologies will take 2 years to COD from financial close, so a 4 year allocation would be more appropriate.

3.2 SOP will not attract new investment. Its flaws are:

\* “Existing Facilities” are by definition in the New Gen Regulations as those facilities operating in 2011. All new installations at Facilities that did not have generation then are thus excluded.

\* A 3 year PPA will not attract new investment.

\* Eskom to decide on the tariff to be paid. The Eskom thinking (and as advised to DMRE) is to set the SOP price at Eskom's non-emergency average, variable cost of generation. It is understood that this will be lower than even WEPS (Wholesale Electricity Price), Eskom's previous "Standard Offer" product that was suspended in 2017.

\* the tariff is not market related, and does not reflect the true avoided cost that Eskom will be off-setting. A further aberration is that IPPs do not enjoy government bail-outs, utility scale installations, cost plus risk avoidance and depreciated assets, as the Eskom fleet does. With international coal prices increasing due to the Russia/Ukraine war one can expect the costs of Eskom's generation to increase, so moving the SOP price further away from market related. Once again it is not a level playing field, with the customers paying a heavy price for load shedding and OCGTs. The ERA make provision for generators to make a "...reasonable return.." and this is not possible given the SOP tariff arrangements.

\* The SOP will be offered to all generators, and not be technology specific as required for "Other" technologies in the IRP.

### 3.3 Agree

3.4 i. It is insufficient.

3.4 ii Those allowed for in the IRP 2019 Table 5 "Other" column.

3.4 iii No.

3.4 iv Existing generators will be able to provide power immediately after the conclusion of a PPA. Others will take up to 24 months after financial close.

## **Section 4: COST RECOVERY MECHANISM AND THE IMPACT ON TARIFFS:**

Eskom has proposed cost recovery through the RCA mechanism. This is acceptable.

The tariff set is not market related and will be too low – as explained above.

## **Section 5: PROCUREMENT PROCESS UNDER ESKOM'S STANDARD OFFER PROGRAM:**

Comments provided above.

However – a SOP process is necessary to mop up excess IPP generation that cannot find another home. It however must:

\* be at a market related price

\* not take up the allocation in the IRP2019 to "Other" technologies, that need long term, financially sound PPAs as has been provided to all other technologies in DMRE's IPP procurement since 2011.

It is therefore recommended that the DMRE Minister removes any reference to the IRP, so allowing a new Ministerial Determination to be written for "Other" technologies to go ahead, through the IPP Procurement Office. This to be with an investment grade RFP that is suited to the broad range of "Other" technologies that could potentially bid. Importantly, the IPP Procurement Office needs to demonstrate that lessons from the still-born procurement of the past, have been acted upon.

**Section 6: CONCURRENCE PROCESS TO THE MINISTERIAL DETERMINATION WITH INDICATIVE TIMELINES:**

See comments on broader issues that we feel NERSA should be dealing with – as detailed in the General Comments and Background sections above

**Acknowledgment:** Our member's contribution is acknowledged and valued.

Yours faithfully

A handwritten signature in black ink, appearing to read 'T. Garner', written over a faint rectangular box.

pp T. Garner  
SAIPPA Chairman