

**South African Independent Power Producers (SAIPPA)
Response to Nersa Issues Paper on the IRP 2010**

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SAIPPA RESPONSES TO STAKEHOLDER QUESTIONS ON NERSA ISSUES PAPER ON IMPLEMENTATION RULES FOR IRP 2010

Stakeholder question 1: Is there any other objectives that should be added or omitted?

1) c), d), and f) can only be achieved with CLEAR and IMPLEMENTABLE Policy. Nersa should set this as a pre-requisite of its Rules.

Nersa should also set an objective to minimise COSTS to the consumer by Regulating prices which relate to the COST of ELECTRICITY SUPPLY ONLY.

Stakeholder question 2: Should all renewable energy generation be part of the REFIT programme?

Yes, including forms of renewable energy that fall within a clear definition of 'Renewable', including technologies not considered yet and all that is envisaged with the Cogeneration definitions where Waste Fuels and Energy are utilised for combined heat and power.

Stakeholder Question 3: Should the public sector (e.g. Eskom) also be building renewable energy generation.

Given the issues of completing its current build, the Public Sector should first successfully complete its current build (i.e Solve its current problems) and then be considered to construct Renewable projects. The risks of allocating Renewable projects (where proven execution skills in the public sector do not exist) are high. Further, any new projects will detract from the enormous task of completing the current build which is critical to the system.

Stakeholder Question 4: Understanding that currently renewable energy technologies are more expensive than the conventional power sources in terms of direct costs to the customer should their contribution to the generation mix be capped, if so at what level and over what time span?

This question is founded on a fallacy. Any long term PPA at a c/kWh that is below the LTLC of electricity will bring down the LTLC. IRP 2010 modelling shows the LTLC of the recommended Revised Balance Scenario is ~ R1.15/kWh. The renewable technologies that are cheaper than this are:-

- All waste energy and waste fuel fed cogeneration technologies (COFITs) These are likely to be cheaper than Kusile power on a LTLC, "all external costs included", basis.
- Biogas and biomass
- Wind if the EPRI costs are assumed ~ 90 c/kWh.

Thus:-

- Technologies below the LTLC need to be encouraged and limited only by amount of MW required from new generation, from the private sector, and technical issues such as system stability, grid connectivity etc.
- Technologies above the LTLC must be capped (a cap, not a target), and in a procurement process, cheaper technologies should be favoured over the more expensive.

Stakeholder Question 5: What additional rules, if any, does the Energy Regulator need to make to enable it to facilitate, enable, monitor or regulate this process?

Items to consider:-

- Handling unsolicited bids (see below)
- Rules for establishing an acceptable PPA.
- ENSURE THAT THE PROCUREMENT PROCESS WILL RESULT IN A CONTRACT. Therefore the Rules MUST STIPULATE HOW LONG A PROCUREMENT PROCESS CAN TAKE and WHEN AWARD MUST HAPPEN to ENSURE THAT ALL PARTIES CAN DELIVER.

Stakeholder Question 6: What additional rules, if any, does the Energy Regulator need to make to enable it to facilitate, enable, monitor or regulate the process of public sector procurement?

The problems of 2007/8 and the inability of Eskom to finance its expansion without Government guarantees show the result of indiscriminate treatment. Mega projects have been allowed to proceed without due diligence of the ability by the incumbent to deliver. Private sector projects are subject to thorough due diligence before being allowed to proceed.

The Public and Private Sectors should bid on an EQUAL basis to execute generation projects. An Independent Buyer of the power is thus essential.

The RULE should emphasise an INDEPENDENT due diligence exercise assessing ABILITY TO PERFORM. (Technical, Financial and Commercial)

Stakeholder Question 7: Should that capacity be replaced by another technology?

Yes – see motivation under Q 4.

If the technology is important (cheap, government policy, speed to COD etc) the FIT tariff should be adjusted to create the right interest at the following procurement tranche.

Stakeholder Question 8: If that capacity is replaced by another technology how should the other technology be selected?

Application of the established Selection Criteria, from the cheapest.

Stakeholder Question 9: Are these considerations valid and justified?

- a) Track record will exclude new players. Some deeper assessment of delivery capabilities is needed for new players.
- b) Location – yes given the Tx and Dx issues.
- c) Financial – cost is crucial. Financial structures need to be competent, but many models are possible.
- d) Technically feasible – crucial. Must be a “go/no go” gate.

Stakeholder Question 10: Unsolicited Bids: When would consideration of such a bid be justified?

- If there is a 3 year procurement plan, with procurement tranche every year, then having to handle unsolicited bids should not be necessary .
- Another alternative is to having a second phase to a procurement tranche, where once the main bids are financially closed, further adhoc bids can be considered under the same terms and conditions.
- A third option is to include an “open” section to the procurement process where any technology can be bid, at the price of the cheapest, all other T’s & C’s being applied.

Stakeholder Question 11: How should such unsolicited bids be handled given that they are not catered for in the IRP?

- IRP needs to provide the Buyer with some flexibility – see points about not capping cheaper technologies in Q4 above.
- NERSA needs to respond to new technologies by way of new FIT’s that can be incorporated into the next revision of the IRP.

Stakeholder Question 12: What additional rules, if any, does the Energy Regulator need to make to enable it to facilitate, enable, monitor or regulate this process?

- Attention must be given to ensuring that the commitments made in a bid are met – job creation, and local manufacturing being 2.

Stakeholder Question 13:-Should own-generation be considered as load reduction measures and fall outside the Integrated Resource Plan?

The definition of ‘Own Generation’ is unclear: it implies that there is no transaction between the supplier and consumer.

No – it is too important in the generation mix in the country not to be part of the planning process, and it needs to be properly considered to ensure that it is maximised.

The same is true for Wheeling – here licensing is required so there will be more visibility, but it needs to be planned and allowed for in the IRP’s.

Stakeholder Question 14: Should generation which is built to supply a particular organisation's own-power needs and not for sale to third parties but which is off site be considered as own-generation provided that the appropriate wheeling contracts are in place and the requirements of the Grid Code are met?

"Own Generation" needs to be defined, but in the ERA,(where it is not defined), no license is required for a generation plant that is "...constructed and operated for own use." Logically this can only apply to generators that are embedded within a complex that has a load to absorb the own generation.

As soon as external parties are involved (Arms length deals) – either to Wheel the power and/or to purchase the generation, it needs to be licensed and factored into the Tx planning.

Grid code needs to be met by all generators connected to the grid, whether embedded or not.

Stakeholder Question 15: How can the unintended consequences of own generation be mitigated?

Any problem with licensing or registering all Generation plants of consequence? – say over 50MVA design rating.

Stakeholder Question 16: Should the development of the Power Conservation Program be accelerated? If so what would the consequences be for the IRP? Yes – the country needs the ECS scheme as a "last resort". The quicker we get to grips with the requirements to apply it to as wide a base as possible, the less disruptive and more equitable it will be.

IRP consequences – already allowed for in the IRP 2010 as the MTRMP is part of the IRP, and ECS is a recommendation within the MTRMP.

Stakeholder Question 17: Are there any other comments that you would like to make concerning these rules?

- The provisions of the amendments to the New Gen Regs (published 30 Nov 2010) need to be allowed for.
- The EPRI analysis of technologies and the costs thereto are far more credible than NERSA's own work. NERSA needs to align themselves with EPRI, and provide a single source of LTLC.
- EPRI did not analyse Cogen costs, which need to be done, and applied as per the above point.
- Work has to be done in clarifying definitions and their application for the various technologies in REFIT and COFIT. As an example, how is "Solid Biomass" defined vs "Industrial Waste" from timber processing? The sugar industry is similarly challenged in defining bagasse vs cane tops and trash.
- Industrial complexes can have a wide variety of power generation fuels and technologies, all driving a common power plant. By example, an integrated Pulp and Paper complex in SA can have virgin coal, gas, HFO, biomass, wood ethanols, and black liquor as fuels, producing cogen and condensing power. How are these various combinations of technologies, and FITs going to be handled?