



**Energy Intensive Users
Group of Southern Africa**

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21 May 2021

Adv. Thabo Mokoena
Director General of Mineral Resources and Energy
Republic of South Africa
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Dear Adv. Mokoena

EIUG RESPONSE: PUBLIC CONSULTATION ON THE ERA SCHEDULE 2 UPDATE

The Energy Intensive Users Group of Southern Africa (“EIUG”) was established in 1999 as a voluntary, non-profit association. It was incorporated as a Non-Profit Organisation in 2019. The group was founded on the belief that energy is the engine for economic growth and development in the country.

The EIUG represents intensive energy users consuming around 40% of electricity, contributing over 20% of GDP and employing over 650 000 employees. EIUG therefore has a skin in the game and appreciates the opportunity to be heard in this consultation process. The EIUG continues to engage all stakeholders in a constructive manner to raise our concerns and work with them in finding solutions. The EIUG believes that as a collective of stakeholders, we need to create an enabling electricity supply industry that will enable the country to prosper and that the deployment of ‘own-use’ generation will assist in closing of the national supply deficit, stabilising our escalating electricity costs and the decarbonisation of our economy.

The EIUG therefore welcomes the opportunity from the Department of Mineral Resources and Energy (DMRE) to contribute to this important consultation on the Schedule 2 of the Electricity Regulation Act (2006), Licensing Exemption and Registration Notice. This schedule is particularly important for our industries as several our members have embarked on developing energy

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generation projects for 'own-use' to supplement their grid supplied electricity. To resolve the current constrained electricity supply situation in South Africa, an enabling electricity supply industry is required, with an appropriately amended Schedule 2 of the Electricity Regulation Act contributing in this regard, as well as up to date and dynamic Integrated Resource Plan (IRP). Thus, our submission in this consultation period regarding the contemplated Schedule 2 amendments.

1. The EIUG believes the positive impact of enabling 'own-use' generation through easier licensing requirements and increasing the threshold limit for licensing will result in:
 - a) A potential source of competitive advantage for South Africa - Blessed with abundant land, wind and solar resources, the deployment of 'own-use' renewable energy as part of the Integrated Resource Plan will help enable the transition to lower-cost, lower-carbon electricity provision as a strategic input for our members;
 - b) Improved system reliability by closing the supply deficit and thereby reducing load shedding and curtailment while also giving Eskom the much-needed space to do their maintenance;
 - c) Improved cost management for own-generating consumers by dampening the effect of ever-increasing regulated prices and bringing in some level of price certainty;
 - d) The net effect of improved reliability and cost management will be improved economic performance with the virtuous consequences of additional expenditure on input goods and services, which in turn will assist towards job retention and job creation;
 - e) Under growing Environmental, Social and Governance (ESG) pressures, the decarbonisation of our member's operations is imperative to continued attraction of investment and to meet the product needs of their customers.
 - f) Deployment in the local vicinity of our members' operations would create local employment and supplier development, and would limit capacity stresses on transmission lines, whilst freeing up supply capacity that could be redirected to stimulate economic growth. These projects may stimulate local economies, especially the communities from which much of their labour comes. For mines, it can form an anchor in a post-closure economic plan, especially underground and deep-level mines, the majority of whom are facing economic distress.

2. The following are the key issues we believe need to be considered as part of this Schedule 2 amendment:
 - a) For policy certainty and legal clarity, the term "own-use" must be defined as proposed in Appendix 1 and thereafter referenced accordingly throughout the schedule. Our proposed



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definition is as follows “any generation, Facility irrespective of whether the electricity is used on the same Property as the generation Facility or is Wheeled over either or both of a distribution power system or the transmission power system operated solely to supply customers”.

- b) Licensing Threshold Limit - while appreciating the department’s willingness to increase this limit from 1 MW to 10 MW for generation Facilities with a point of connection to the distribution power system, the EIUG believes this proposed limit will not attract and accelerate more economically viable investments as intended. The EIUG therefore suggests that for the purposes of ‘own-use’ projects there is no arbitrary licensing threshold, or license requirement, but rather the capacity should be determined by the system operator on the premise of technical network considerations, including infrastructure, control and grid stability, and compliance to the Grid Code. Projects of 50MW and upwards will reach economies of scale, meaningfully meet the needs of large power users, maximise industry participation and support in closing of the supply deficit. The EIUG also calls for inclusion of those generation Facilities that may be connected to the transmission power system in addition to those connected to the distribution power system.”
- c) Technical Grid Impact Considerations – The EIUG acknowledges that increasing the limit may have some technical challenges for network operators in certain areas but believes this is not in itself sufficient reason for not increasing the limit, as the connection approval process will still consider all the associated technical risks and that should be perfectly adequate protection. In possible instances where networks may not be able to manage this limit, in such limited cases then the projects may not be approved at this scale, but those that are approved for connection could then proceed expeditiously to final approval. Therefore, if the grid code requirements are met, including ability for System Operator to communicate with the own-use generation Facilities above a certain threshold (to be technically determine by the System Operator) approval should be granted.
- d) Point 3.1.2 states that “the generation Facility is operated to supply electricity to an end-use customer or related customers with wheeling of that electricity; and” – This clause may be interpreted in different ways, like supply to a single company and its related subsidiaries or multiple companies together with their subsidiaries, the common intent being own consumption to disallow reselling of electricity. The EIUG believes this clause needs to be further clarified to allow multiple end-use customers in order to offer generation investments greater economic viability through scale (increased volume outputs). Some companies may be big enough to take the viable output on their own while others may need to share as



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multiple end-use customers the economically viable output. Clarity also needs to be made that this is for own consumption by the customers and not for reselling.

- e) Ownership of 'own-use' generation Facilities – For the avoidance of ambiguity, the ownership of an 'own-use' generation Facility should have no bearing on its licensing requirement. The 'own-use' facility could be, *inter alia*, self-funded, a partnership or third-party financed.

3. In conclusion, the EIUG believes the updating of ERA Schedule 2 is a progressive step towards improving and mitigating electricity supply industry (ESI) challenges. However, to resolve the electricity supply industry challenges and unlock the ESI's inherent potential, several more changes need to occur. In this regard, the EIUG would like to highlight some of the actions that need to be considered and expedited:

- a) The establishment of the Independent Transmission System and Market Operator (ITSMO), together with the necessary enabling legislation. This will assist in improving confidence for investors, knowing that the market is managed by an independent entity. The establishment of a separate state-owned Transmission company is critical to the ESI reforms and is long overdue since the SONA 2019 pronouncements by the President of the Republic of South Africa.
- b) Life of plant/mine versus life of generation Facility– Considering that most of the existing customers may have life of plant/mine that is less than the design life of a generation Facility, or where the life of plant/mine maybe drastically shortened due to a fall in commodity prices, consideration needs to be given in providing the generation facility with an option to sell to other customers or a distribution facility once the original supply contracts (in terms of own consumption) have lapsed due to end of life of plant or the power demand (for own consumption) ceases unexpectedly. This enabling trading mechanism, which is common globally, would de-risk 'own-use' generation over the engineered life of generation asset and mitigate the risk of either the liabilities of a power purchase agreement (where such might exceed the possible life of mine or plant) or a stranded asset;
- c) Wheeling framework – While this schedule cites the use of wheeling in some instances, it does not acknowledge the lack of a clear wheeling framework. The EIUG therefore calls for the establishment of a national framework standard that all networks are required to comply with in order to provide certainty and confidence in conducting wheeling, including the evolution and cost thereof through the industry restructuring;



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- d) Easing of License Requirements – Currently all projects requiring a license have the same requirements for licensing irrespective of size or technology proposed. The EIUG proposes that a fit for purpose licensing regime be established so as to expedite introduction of new generation by large power users, given the worsening Eskom coal fleet energy availability factors (EAF);
- e) With the aged Eskom coal fleet that faces decommissioning, there is a need to ensure that such closures are not done at the detriment of energy security or negatively impact economic growth. To this effect, while Eskom is working on their processes including the Just Transition, there is a need for a national framework that will guide their efforts so that the needs of all stakeholders are adequately covered.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Fanele Mondi', is written over a circular stamp or watermark.

Fanele Mondi

Chief Executive Officer

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