MEDIA RELEASE

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More competitive electricity market required in South Africa

The spotlight was once again on South Africa's power supply system when Eskom recently declared a power supply emergency. While the state-owned power utility is better positioned to handle the constrained situation we face than it was in 2008, in the longer term the country needs to consider a more market-driven demand side driven and competitive model to overcome some of its challenges.

That's the word from GIBB's Power and Energy Sector General Manager, Paul Fitzsimons, who said in mature markets different power generators sell electricity to a central independent buying office, which then sells the electricity on to energy wholesellers and retailers via distributors. "Whilst in many countries there are varying degrees of vertical integration, at the moment the majority of the entire process in South Africa - from generation and transmission to distribution to the end user - is controlled by Eskom, but with municipalities and metros playing the role of retail distributors and on-sellers in many cases.

"Although South Africa's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) is a step in the right direction, independent power producers continue to bid electricity to the Department of Energy, and transfer it back to Eskom, meaning the man in the street is not able to choose where he gets his electricity from."

One of the greatest challenges with electricity supply systems - anywhere in the world - is getting the electricity from the generator to the end user. The process always requires a single transmission and distribution network and these are in reality natural monopolies.

“In a “perfect” market there would be many generators competing to provide electricity into a single network operator. The electricity would then be transmitted to a number of distributors and while the assets are geographically fixed it is also possible to open up operations of such systems to some form of competitive process through fixed term management and operating contracts. While users may be stuck with a particular distribution network by virtue of geography, they would be able to buy their electricity from anybody, and the introduction of competition in operations would naturally drive up performance and drive down cost,” said Fitzsimons.

This type of model was introduced in the United Kingdom (UK) during the Thatcher years. “Competition was forced into the system and an open bidding pool was established to buy electricity from different generators. Different qualities of electricity (base load; peak-time) were priced differently. Prices were published and there was a high degree of transparency.

“Today, with electricity prices rocketing in the UK, there has been a lot of discussion around whether this model works or not. Generating companies have been accused of creating internal middlemen in order to sell electricity to themselves at inflated prices before on-selling it to the customer,” said Fitzsimons.

While the UK model is largely deregulated, Fitzsimons said a degree of regulation is required to ensure the system is not abused. “Perhaps a good example is the United States (US) where utilities are privately-owned, but the sector remains highly regulated. This is, of course, notwithstanding some spectacular failures such as the California energy crisis of 2000/2001,” he said.

Importantly, proper demand side management is where consumers are given the choice as to which supplier they buy their electricity from. This would be possible in a market characterised by independent transmission and distribution grids and Independent Power Producers (IPPs) competing in an open electricity market and characterised by the emergence of various market driven demand management solutions such as demand aggregators, energy brokers and similar risk and liquidity measures.

“While it has been criticized, the forward selling of bulk electricity for large scale industrial users is actually a perfectly normal market driven response and a form of price hedging widely practiced in competitive commodity markets. In South Africa, industry reform has been on the agenda for some time. The Independent System and Market Operator (ISMO) Bill, which proposes placing the operation of electricity grid in an independent , but state-owned entity, is a positive move towards reform, but has been put on hold twice this year,” said Fitzsimons.

Eskom is the third largest electricity generator worldwide. “This doesn’t make sense given the size of our population. The east coast of the US is probably ranked first and China second - which seems reasonable considering their large populations. SA is similar in size to the UK, but we probably have less people connected to the grid. While the UK has six major electricity generators, three or four major generators would probably make sense for us.”

Fitzsimons said to avoid recurring energy crises, South Africa needs to seriously consider deregulation of the market. “Of course, the system can get highly complicated and relies on transparency and moral integrity, but it can have an enormously positive spin-off in the form of newly created businesses, a more secure power supply, increased foreign investment and - importantly - more jobs for South Africans.”

Ends

Note to Editors:

Leading South African black-owned consulting engineering firm, GIBB, announced its partnership with the largest architectural firm in the country, SVA. The partnership with strengthen the skillset of both companies and grow its confidence in Africa.

With an impressive track record of delivery spanning over 70 years, SVA has successfully delivered over 1000 architectural projects.

In partnership with SVA, GIBB will now be able to offer clients a full range of architectural services including Master Planning, Urban Design and Building Design.

Visit us at www.gibb.co.za

Issued by:

Ogilvy Public Relations Worldwide: Cheryl Reddy
011 709 9621
cheryl.reddy@ogilvypr.co.za

On behalf of:
GIBB: Rowan Sewchurran
011 519 4600
rsewchurran@gibb.co.za

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