

SAPVIA Media Statement

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Private sector investment in solar PV faces risks

“South Africa’s energy mix is expected to shift considerably towards renewables over the next two decades”. That is according to Eskom’s Chairperson, Dr. Ben Ngubane, quoted in the state-owned utility’s media statement released recently of its annual results presentation.

The Department of Energy, in a recently published Expression of Interest (Eoi), has announced its intention to establish a 1500MW solar power park in the Northern Cape, which is envisaged will be co-owned by the public and private sectors.

This points to a general trend towards an increased role for renewable energy in South Africa’s energy mix. From SAPVIA’s perspective, this should be in the context of a policy environment that has at least the following elements:

- An increased – not reduced – allocation for PV and other renewable energy technologies in the revised IRP, taking into account that SAPVIA has consistently called for an allocation of 1000MW towards solar PV. The allocation of 813MW to solar PV as part of the Fourth Bidding Window of the REIPPPP in 2015 has demonstrated adequately that this target is achievable.
- The development of the market segment of solar PV projects in the range 5 to 60MW, taking into account challenges experienced in the implementation of the Small IPP Programme (1 to 5MW) and successes in the nascent roof-top (embedded) PV market segment – which has seen a number of projects that are larger than 1MW and some that are approaching 5MW.
- The stalled process of creating an Independent System and Market Operator (ISMO) should be resuscitated – noting that it will be state-owned. In the interim, the transmission function within Eskom should be managed and regulated in a more transparent manner, specifically to provide confidence that the utility’s priorities in relation to the expansion of its own generation fleet do not come at the cost of the grid investments that are required for the integration of RE IPP power plants.

For instance, it is increasingly becoming clear that a vibrant independent power producer (IPP) sector is not sustainable without an adequately resourced independent transmission company. This will become even more critical as options for replacing coal-generation capacity that will require phasing out from the 2020s onwards, taking into account environmental concerns and developments related to renewable energy and energy storage technologies.

South Africans know too well the effect of depending on one entity that is ‘too big to fail’. And we should learn from past experience. Any semblance of over-capacity in the generation sector – to an extent due to the struggling economy – should not lull South Africans into thinking our electricity supply future is secure. And putting all the ‘eggs in one basket’ is definitely not an option

- The immediate release of the Integrated Resource Plan (IRP) update for public review. The delay of the release of this critical analysis is creating a huge policy vacuum that is trying to be filled by a number of narrow agendas which have little to do with supplying this country and its citizens with the least cost and least regret mix of generation technologies.

This has to be considered in the context of the large-scale, mainly private-sector funded REIPPP process, which has been able to bring online close to 1000MW of new solar PV generation capacity, within budget, over a period of only one year. This has been accompanied by a substantial reduction in the prices of solar PV - amounting to 76 percent¹ since the inception of the REIPPP process. As mentioned recently by the Minister of Energy, the total value of investments in the renewable energy sector so far is close to R200bn, with an expectation it will increase to R255bn by the close of the current procurement rounds.

Due to the electricity supply constraints South Africa faced in 2014 and 2015, the operational solar and wind power plants provided welcome relief to the economy, amounting to a net-benefit of R4.8bn due to a reduction in the requirement for expensive diesel-fired plant and contribution towards curtailing load-shedding.

However, according to the Business Day newspaper edition of 21 July 2016, the Minister of Public Enterprises, Ms Lynne Brown, has said that the Renewable Energy IPP Procurement (REIPPP) process was “reaching its limit” due to a requirement to invest in additional grid capacity to support the further integration of renewable energy power plants.

The issue of grid constraints as impediments to further progress in the REIPPPP places a question mark on the effect of recently announced funding support from a number of development banks, some of which has been earmarked for grid expansion projects to connect RE-IPPs. These include the German Development Bank (KfW)², New Development Bank (“Brics Bank”) and African Development Bank.

Furthermore, what about instances where the introduction of solar PV actually contributes

¹ According a Department of Energy media statement, released on 16 April 2015

² Government welcomes R4bn loan to Eskom from German Development Bank, GCIS, 9 April 2015

towards a reduction in grid expansion requirements – for instance solar PV plants located close to a major load centre such as the Gauteng Province?

In the same Business Day publication, Eskom is reported to have taken a Board decision not to connect utility-scale renewable energy independent power producers (RE IPPs) beyond the REIPPPs Bidding Window 4.5 – which is currently underway.

Eskom Board's decision to derail the further progress of the REIPPP process makes a mockery of the state-owned utility's recent statement about renewable energy playing an increasing role in South Africa's unfolding energy mix and its desire to support the sector. Unless that statement was merely aimed at positioning the utility towards potentially playing a greater role in the RE sector.

While this is certainly within the utility's right, such a process cannot unfold effectively without addressing some key questions regarding the structure of South Africa's electricity supply industry (ESI), as well as taking into account recent experiences with power generation projects delivered outside of initial time and budget projections.

A potential damaging outcome of current discourse is the chilling effect it could have on private sector investment – not only in RE IPP sector, but also in other parts of the economy. Hardly an outcome this economy requires when the outlook for South Africa's economy looks gloomy, considering for instance the recent International Monetary Fund (IMF) forecast of the gross domestic product (GDP) dipping to 0.1% for 2016 and increasing slightly to 1% in 2017³. While exogenous shocks (e.g. drought, low global economic growth, etc) have contributed to this undesirable outcome, there are local actions that must be taken to address factors that are 'home-grown'.

Says Moeketsi Thobela, CEO of the South African Photovoltaic Industry Association (SAPVIA): "Clearly, the frequently repeated lamentations about the hobbling effects of a private sector 'investment strike' on economic growth do not apply in this instance. But could it be said that we are seeing a public sector 'lock-out' of private sector investment?"

As the private sector is not only willing, ready and has been able to deliver in the RE IPP sector, why is the REIPPPP said to be 'reaching its limit'? If the public sector is not able to create the required grid capacity to connect new power generation plants, why is the private sector not provided an opportunity to contribute towards alleviating this constraint? It is also clear from SAPVIA's engagement with Eskom that if a more holistic view⁴ of the cost of delivering electricity would be adopted in the REIPPP process actually no grid constraints are limiting the immediate expansion of programme.

While it is proper to undertake frequent reviews of policy for efficacy, relevance and sustainability, this has to be done in a manner that engenders confidence. This also applies to the RE IPP sector as much as it does any other sector that has to make investment decisions that have long-term effects. It is in this context that SAPVIA has supported the

³ World Economic Outlook, July 2016, International Monetary Fund

⁴ Analysis for the future allocation of PV farms in South Africa, prepared for DOE & Eskom, 2015

review of the REIPPPP that is currently underway, and holds strong view that the programme should proceed once the review has been completed.

Against this back-drop, the delay in releasing the revised IRP for public comment – in preparation for its promulgation – represent a cost to the economy that will be difficult to recover, if at all.

As an association that not only represents RE IPPs, but also PV component manufacturers, SAPVIA increasingly finds it difficult to articulate the pain that is being inflicted on the emerging PV manufacturing sector due to the uncertain evolution of the REIPPPP and the seeming inability for all of government stakeholders to sing from the same hymn book. The negative effect on attempts to re-industrialise the South African economy and boost job-creation are all too obvious to see.

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