

Guide and overview  
to the  
Independent Power Producer (IPP) Process  
in  
South Africa and Eskom

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# Context

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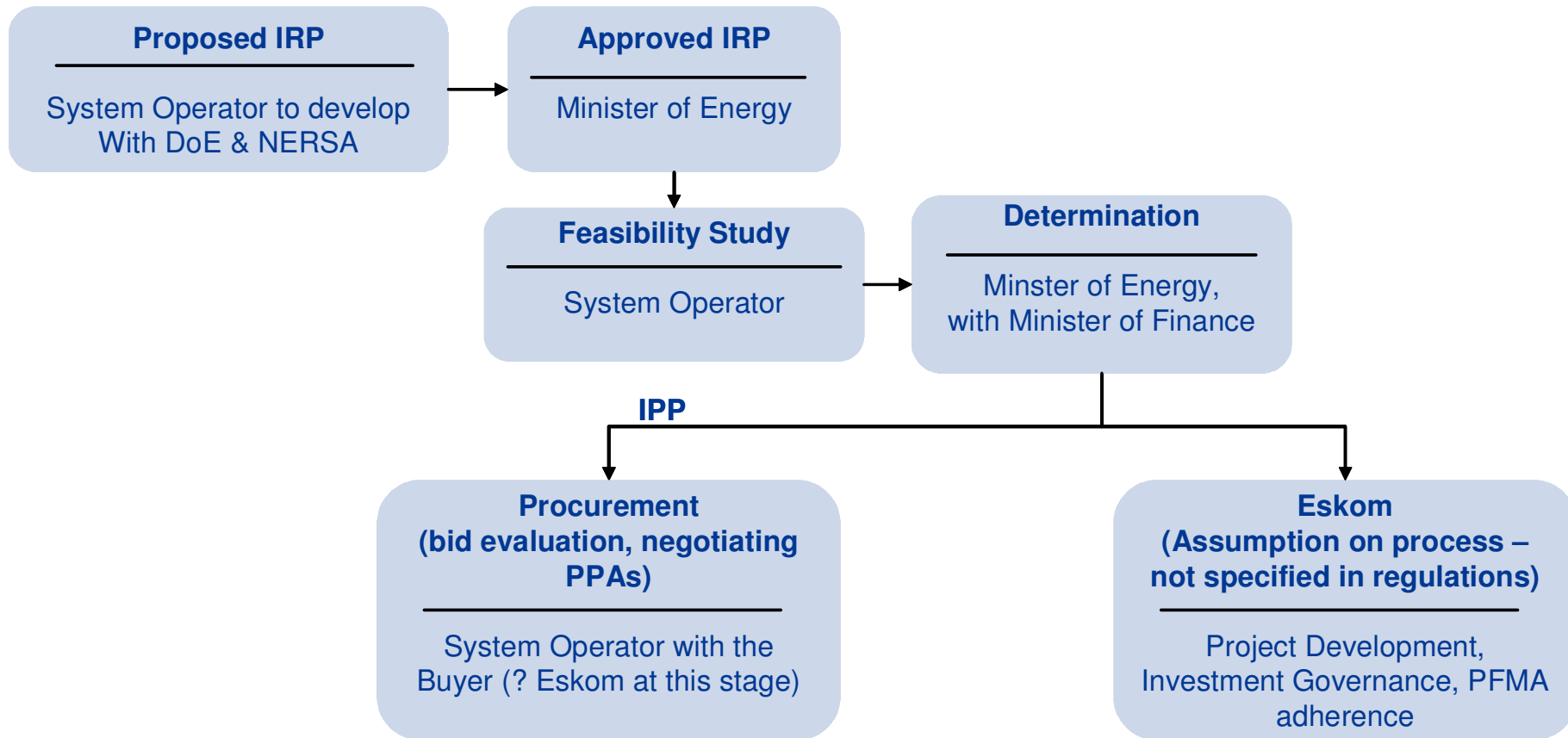
# Introduction and background

- Introduction of private sector generation has multiple benefits:
  - Diversification of supply and nature of energy production
  - Introduction of new skills and capital
  - Reduction of funding burden on Government
  - Benchmarking of performance and pricing
  - Reduction of borrowing requirement of Eskom
- Enabling policies, rules and regulations need to be in place to provide certainty and transparency in the introduction of IPPs

# Country process

- Two acts direct the planning and development of the electricity sector:
  1. The National Energy Act of 2008 (No. 34 of 2008)
  2. The Electricity Regulation Act (ERA) of 2006 (No. 4 of 2006)
- New Generation Regulations were published in August 2009:
  - Provides rules and guideline applicable to the procurement of an IPP for new generation capacity
  - An Integrated Resource Plan (IRP) will be developed by the Department of Energy (DoE) which sets new generation capacity requirements
  - All IPP procurement programmes will be executed in accordance with the IRP

# Process for new generation planning and procurement as per Regulations



# Formal process

- All bid programmes have the following prescribed stages:
  1. Request for prequalification (RFQ)
  2. Request for proposals (RFP)
  3. Negotiation with preferred bidder
- Historical projects were developed prior to the New Generation Regulations and are finalised outside these Regulations
- A framework for unsolicited projects, which are outside the scope and timeframe of particular programmes, are currently discussed with the relevant stakeholders

# Independent system and market operator (ISMO)

- The establishment of an ISMO has been suggested as a response to the following challenges:
  - Absence of enabling framework to introduce IPPs
  - Role of Eskom and possible conflict of interest
- The timing of the establishment of an ISMO must minimise disruption of the industry at a time of capacity challenges
- Fundamental issues such a pricing, government support and risk allocation will not be addressed through structure alone

# Current Eskom process and programmes

- The Single Buyer Office (SBO) housed in the System Operations and Planning Division was established in 2007
- Current IPP programmes within the SBO include:
  - Renewable energy feed-in tariff (REFIT) programme
    - Up to 1025 MW by 2013
  - Medium term power purchase programme (MTPPP)
    - 420 MW of co-generation capacity, on line from 2010
  - DoE peakers programme
    - 1 020 MW, to come on line in 2011
  - Multi-site base load IPP programme (MSBLIP)
    - On hold, but called for up to 4 500 MW
  - Municipal generation
    - Short term contacts for security of supply
  - Regional import IPP programmes
    - Government lead initiatives without financial commitment



# Enabling environment

- A supporting enabling environment is a precondition to attracting private sector participation
- The enabling environment requires coordination and alignment between government departments, state-owned enterprises, businesses and development institutions
- Specific issues to be addressed include:
  - Coherent energy policy and IRP
  - Flexible Cost Recovery Mechanism (CRM) with adequate “buyer” support
  - Fair risk allocation
  - Appropriate Government guarantees
  - Adequate tariff path aligned to the IRP
  - Effective regulatory environment

# Contacts

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