

BRIEFING FOR MEETING WITH MINISTER OF ENERGY ON 6 APRIL 2010

INTRODUCTION

BUSA has been an active participant in the structures established by Government to deal with the electricity crisis. As we indicated to the National Stakeholder Advisory Council on Electricity chaired by the deputy President in December 2009, the crisis is far from over and as the higher energy intensive users in manufacturing increase their production volumes to pre recession levels, we could well face very significant challenges with supply.

We would like to use this opportunity to initiate an ongoing engagement with you on issues which we believe to be of common interest and in particular ways to ensure that the load shedding of 2008 is not repeated.

CONSULTATION STRUCTURES

At the meeting of the National Stakeholder Advisory Council on Electricity in December a comprehensive work plan was adopted. We understand that the Presidency has established a number of government task teams to implement this work plan, which ultimately report to the Interministerial Committee on Energy.

We had always understood that the NERT would be used as the means of stakeholder consultation on the outcome of the deliberations of these task teams. This has been confirmed by the Presidency. However we see no sign of the NERT or any of its substructures being convened. In the absence of the structure that is being presented to us by the Presidency as the consultation structure for a wide range of technical and policy work on electricity, we are concerned that there are no opportunities for structured engagement with business.

BUSA believes that it is possible to mobilise significant technical expertise amongst its members to support the comprehensive work that is required to meet current and future energy supply challenges. If the NERT is not to be revitalised then we request the establishment of a formal bilateral structure with BUSA.

INTEGRATED RESOURCE PLAN

We welcome your invitation to comment on the December 2009 IRP with a view to the necessary public consultation around the energy mix and a more substantive IRP document (IRP2) to be finalised, which reflects a shared developmental vision for the energy mix for the next 20 years. but all sectors of society need to take ownership of the IRP.

Although we understand that some technical experts from the private sector are working with the department on a new plan, we believe that a sound consultation process to develop the first draft of the IRP2 is essential for successful implementation of the final plan, which will not only place responsibility for delivery on the Government but on the private sector as well. It is therefore of great

importance to us to ensure that we participate constructively in the process so that we are sure that we can fulfil our responsibilities. Key issues of interest to us are:

Climate change commitments

As you are aware the energy sector currently accounts for 78% of the national greenhouse gas inventory and as such should form a significant portion of the undertaking made to the Copenhagen Accord. However review of the individual components of the undertaking reveal that until 2020 only 6% of the deviations from business as usual will come from the energy production sector. This in turn means that a significant demand is going to be placed on other sectors. Demand side management is planned make a significant contribution.

The composition of the energy mix in the IRP must therefore be rigorously assessed in relation to its contribution to the climate change commitment. What is clear is that a third new coal fired power station may place intolerable burdens for reduction on other sectors.

It is therefore imperative that climate change considerations form an integral part of the IRP2 and that all user sectors understand clearly the contribution to demand side management that they will have to make.

Energy mix

Whatever the sources of new power generation, they are likely to be expensive and a serious investment on behalf of the public sector. An analysis of costs should consider the full costs (including externalized costs and potential future carbon costs) of the various generation technologies available. These must also be balanced with the benefits of more labour-intensive operations, increased research and development and industrial leadership associated with clean technologies.

Business believes that opening the power sector to private sector investment will be critical to mobilise the necessary financial resources, to add generation capacity for the country, and to advance research and development into new clean technologies and industries which have domestic applications and export potential. It is imperative that the IRP2 covers these issues comprehensively.

POLICY ENVIRONMENT FOR IPPS

We have consistently been calling for a clear policy environment for participation by Independent Power Producers in electricity generation and welcome the ongoing media announcements in this regard. We are however concerned that there is no consultation with the private sector on the overall approach.

To give an example the regulatory rules for power purchase cost recovery were published by NERSA without consultation. A review of these regulatory rules has raised significant concerns in business as it appears that most of the cost escalation risk of power purchases from alternative sources to Eskom in fact could have significant adverse consequences for all classes of consumer. If there had been

adequate opportunity for consultation, these concerns could have been addressed before promulgation with much less difficulty.

We have recently submitted comments on the NERSA draft Rules for on the selection criteria for renewable energy projects under the REFIT programme. While the publication of these rules for comment is welcomed, we remain concerned at the absence of an overarching policy statement in this regard and a plan of action to conclude all the elements of a policy environment conducive to private sector participation in electricity generation.

The outstanding elements include

- Publishing a bankable generic power purchase agreement (PPA) by NERSA
- Working out the technical, financial and timing details of connecting privately produced electricity supply to the grid;
- Setting up an independent systems operator and working out how to give it liquidity.

We would like to explore how we could be of assistance in expediting completion of this work.

DEMAND SIDE MANAGEMENT INITIATIVES

It is common cause that Demand Side Management initiatives must be rigorously pursued

In this regard, BUSA believes the following three broad areas of work need to be pursued urgently:

- Alternative supplies
- Energy efficiency improvement
- Demand Market Participation

In considering these initiatives it is important to note that achievement of the greenhouse gas emission reduction undertaking submitted by South Africa to the Climate Change negotiations is highly dependant on aggressive pursuit of demand side management initiatives.

Alternative supplies

Significant concessionary funding has been made available to South African banks to support the roll out of solar water heaters and industrial energy efficiency. A business plan for private sector participation is currently being developed.

As discussed above urgent development and implementation of the policy environment for the introduction of IPPs including the REFIT scheme is required.

Energy efficiency improvement

The required improvements in energy efficiency will need a range of instruments to achieve national imperatives in this regard. These instruments are discussed below:

The National Energy Efficiency Strategy was revised and published for public comment in 2009. The document was referred to the NERT Task Team on Energy Efficiency for review in response to the comments but due to lack of funding the work was not undertaken. It has now been proposed by DOE that this review be undertaken as part of the UNIDO industrial energy efficiency project which has just commenced. BUSA has supported the inclusion of a review of the National Energy Efficiency Strategy in the UNIDO project and the terms of reference are currently being reviewed for this purpose. It is understood to be Government's intention to introduce mandatory sectoral energy efficiency targets.

BUSA does not oppose a mandatory approach to energy efficiency improvement but believes that the setting of mandatory sectoral targets is extremely challenging and ultimately not viable because of the differences in energy efficiency in different companies within a sector or even subsector. There is also the question of the companies which have already voluntarily improved energy efficiency by optimisation of their systems to the extent that very little improvement is possible. Government would be inundated with applications for exemption from the requirement. BUSA therefore believes that an alternative approach is required.

BUSA has been engaging with Government in respect of water use efficiency and believes that application of the Australian approach to this issue, which will now be adopted for water use efficiency is a more pragmatic and ultimately more successful approach.

Users above a certain threshold would be required to develop site energy efficiency plans, which could include site level targets. Regular reporting would be required, which would allow government to monitor progress towards overall aspirational sectoral targets that already exist.

The current aspirational targets could also be reviewed in the light of climate change requirements.

BUSA would like you to consider including this alternative approach in the review of the National Energy Efficiency Strategy. We have already offered to host a workshop with the Department to engage on this approach as part of the review process and would appreciate your endorsement of such an approach.

Implementation of a successful energy efficiency strategy requires credible measurement and financial incentives from Government. In respect of measurement, BUSA has been active in the development of a National standard for measurement and verification of energy savings, which will be published this month.

BUSA is also active in the development of a national standard for the accreditation requirements for certification bodies which will also be finalised soon.

The Income Tax Act has been amended to include a tax allowance to support energy efficiency savings. Implementation of this provision awaits promulgation of

regulations in terms of the National Energy Act. While we understand that some progress has been made in this regard, we are disappointed that there is no sign of the finalisation of these regulations, which are now delaying implementation of the tax allowance.

Again we are ready to provide any support that you would find useful for the finalisation of these regulations.

We welcome the extensive program of action on respect of national standards on energy efficiency of equipment, which is included in the Industrial Policy Action Plan. We recognise the importance of these standards, which we understand will be ultimately incorporated into regulations in terms of the National Energy Act.

We are currently mobilising our members in the relevant sectors to work with the SABS in developing the standards.

BUSA is a signatory of the energy efficiency accord between Government and the private sector and BUSA members and their companies have made significant progress towards the national energy efficiency target. The measurement challenge which faced signatories has now been addressed by the development of the national standard and implementation of the standard will now be prioritised.

In addition to the energy efficiency accord, many sectoral associations and companies have initiatives to promote energy efficiency, most of which are incorporated company approaches to sustainability and climate change mitigation.

A number of companies in the chemical, agroprocessing and automotive sectors have undergone energy efficiency audits supported the NCPC.

Demand Market Participation

Demand market participation allows energy users to optimise their energy use so that surplus energy can be released to the grid in times of need. It essentially involves the establishment of a virtual power station. Eskom have done preliminary work on the concept and have shown that it is feasible. As agreed at the NSACE this concept needs to be rigorously pursued. There may be significant synergies between the energy system optimisation contemplated in the UNIDO project and this approach. Mechanisms need to be developed to allow full scale roll out of this concept. The Energy Intensive Users Group is currently reviewing this proposal with a view to presenting a more comprehensive business case to Government.

CONCLUSIONS

BUSA hopes that a formal engagement structure can be established between BUSA and the department to engage on a range of issues of mutual interest of which the most pressing are:

- Regulations in terms of the National Energy Act to support the tax allowance for energy efficiency savings
- Structured input into the IRP

- Introduction of demand market participation
- Introduction of alternative sources of supply
- Review of the national energy efficiency strategy to consider alternatives to mandatory sectoral targets.