

## South Africa energy security – Ramaphosa lets the private sector in

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South Africa's President, Cyril Ramaphosa, took a step towards restoring the country's energy security with his [Energy Action Plan](#), announced on the 25th July. At a single stroke he both opened the door to greater private investment in energy generation as well as an accelerated expansion of the country's renewables fleet. Properly implemented – an area where key [private sector players](#) have openly expressed reservations – the Plan has the potential to open the gates to a flood of investment.

With its emphasis on renewable energy, the Plan is also a key element of South Africa's just transition to net zero. In early July, Ramaphosa had accepted the [Just Energy Transition](#) (JET) framework devised by the Presidential Climate Commission (PCC). The framework should unlock the [US\\$8.5 billion](#) promised to South Africa by developed countries at COP 26 held in Glasgow last year to help fund a transition to clean energy. Although Ramaphosa's announcement was not explicit on the issue, it is likely that most of this soft-loan windfall will be used to [strengthen the grid](#) to allow it to accept more dispersed renewable generation.

The Plan, which appeared to have been extensively networked in government and between government and other role players including organised business and labour, was approved in general concept by the [National Executive Committee](#) of the ruling ANC. Political opposition down the line cannot be ruled out but it seems that for the moment, the severity of the loadshedding crisis during the current winter has done wonders to focus minds.

By the end of June, loadshedding – the practice of cutting supply to protect the integrity of the national grid – has been almost as extensive ([90 percent](#)) as it was for the whole of 2021. And 2021 was the worst year on record, according to the Council for Scientific and Industrial Research (CSIR), with [power down for 13 percent](#) of that year. Eskom's



energy availability factor – which the utility, for planning purposes, assumes is 75 percent – has fallen to an average of [59 percent](#) for 2022.

Ramaphosa's legacy is founded on his plan to attract investment into the economy, especially from offshore. To this end he has organised a series of high profile annual investment conferences, intended to raise [R1.2 trillion](#) over five years. He has also spoken about how development and job creation hinge on successful private sector investment, most recently at his [State of the Nation Address](#) in February.

But investment levels have remained obstinately low, with Gross Fixed Capital Formation (as a percentage of GDP) having been in the low teens for many years. It was at a typical figure of [13 percent](#) for the quarter to March 2022 which compared poorly to the government's stated ambition of a sustained [30 percent](#) over many years. The reason South Africa is an unattractive investment destination is its sub-optimal investment climate with energy insecurity having become a massive and never adequately addressed concern since the unexpected outages of 2008.

In a survey of its members, published last year, the [American Chamber of Commerce in South Africa](#) (AmCham), found that the biggest single challenge to its members was 'reliability of electricity supply'. 83 percent of the survey's respondents regarded intermittent supply as their biggest issue among the 19 problems cited. The price of electricity, which has climbed nearly 500 percent since 2008, was ranked 4th. While it would be incorrect to suggest that electricity insecurity is South Africa's only investment climate challenge, it is both the most fundamental issue and the one most amenable to corrective action.

Ramaphosa's Action Plan has both a short-term focus and longer-term implications. In the short-term government intends improving the performance of Eskom's coal fired generation fleet, buying surplus capacity from existing Independent Power Producers as well as Botswana and Zambia, reemploying former plant managers and engineers even if they have to be poached back from the private sector and waiving the cumbersome procurement regulations which have prevented the utility buying spares from Original Equipment Manufacturers (OEMs).

Perhaps most significant of all is the announcement that the 'cap' on embedded generation – power produced by the private sector to run its own mines and plant – would be scrapped. This comes little more than a year after he had lifted it from 10 MW to 100 MW. This will allow the private sector to sell its surplus to Eskom or, once appropriate 'wheeling' arrangements are in place, to other companies.



Ramaphosa also announced that rooftop solar will be fed back into the grid once a tariff mechanism is in place.

In the medium term, Ramaphosa announced that the procurement of renewable energy, generated by independent producers, will be both expedited and increased. Under Ramaphosa, South Africa's Renewable Energy Independent Power Producers Procurement Programme (REI4P) had been revived after a five-year hiatus. He now intends 'expediting' the current (2 600 MW) Bid Window 5, doubling the capacity requested in Bid Window 6 (to 5 200 MW) and releasing a Request for Proposals for battery storage by September.

But the 25 winning projects in Bid Window 5, announced in October last year, have struggled to reach financial closure. They face two problems. First, global inflation has pushed capital costs higher than their initial estimates and, second, the local content requirements have proven impossible to meet.

Solar power projects, for instance are required to purchase all photovoltaic panels in South Africa. In his Action Plan, Ramaphosa announced that this condition would be waived. Trade, Industry and Competition minister Ebrahim Patel confirmed seven days later that the localisation requirement had been dropped to [35 percent](#) and that localisation targets would be less than 100 percent in future Bid Windows.

These reforms are far-reaching in their implications. They point to a much more distributed generation pattern with energy provided from multiple points and through a variety of renewables technologies. These are effectively the measures needed to implement the [2019 Eskom Roadmap](#) which promised to split the utility into three sections (generation, transmission and distribution) and open generation to private sector competition.

The investment required is enormous. Two years ago, political analyst JP Landman estimated that South Africa's energy sector required investment of [R1 trillion](#) by 2030. Realising this sort of sum required that the correct policy foundations be put in place. President Ramaphosa's announcement does that.

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