

**DEPARTMENT: PUBLIC ENTERPRISES**

**REPUBLIC OF SOUTH AFRICA**

**NATIONAL ASSEMBLY**

**QUESTION FOR WRITTEN REPLY**

**QUESTION NO.: PQ 2426**

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Mr D W Macpherson (DA) to ask the Minister of Public Enterprises:Whether she has taken any steps to secure investment in green independent power production in the country after Eskom’s Chief Executive Officer, Mr Brian Molefe, refused to sign a purchasing agreement with the independent power producers; if not, why not; if so, what are the relevant details? NW2808E

**REPLY:**

The Department of Energy (DoE) takes the lead in the domestic IPP strategy including the sourcing and contracting component of these arrangements. This strategy is driven by the Integrated Resource Plan (IRP) which is the country’s plan for electricity. The IRP is currently in review and will provide appropriate guidance on technology, scale and timing of the electricity requirements for the country with the objective of meeting energy security and diversifying the energy mix.

The key assumptions in the IRP need to be updated to provide a robust plan. In the last month, Eskom presented its Interim Results which shows that year on year demand for electricity only grew 1.2%. In fact demand for electricity has been fairly flat for the last decade.

The current capacity being added on the grid is based on the IRP 2010 which projected higher demand for electricity based on the economy growing close to 6%. This means that we are currently adding on capacity to the grid at rate higher than what is required. The biggest risk with having too much capacity is what happens to the plants that will potentially become stranded. While Eskom can push for a more aggressive export strategy to mitigate this, it comes with its own limitations including Transmission capacity. The challenge then becomes that Eskom would still need to collect the same level of revenue to cover the incurred costs. This is particularly critical at a time where Eskom balance sheet is highly indebted due to the build cycle. So with low volumes, the price of electricity will have to rise to sustain the required level of revenue, meaning consumers will have to pay more for electricity. These Eskom assets belong to the South African public, I have a responsibility to safeguard these and ensure that South African derive maximum value. The current trajectory will potentially be detrimental to consumers and it is critical that the IRP is concluded so we can have plan that offers maximum protection for consumers

**ADVISORY NOTE TO THE MINISTER:**

DEAR Minister,

Eskom has written to yourself, ministers finance and energy as signatories to the Government Support Framework Agreement (GFSA). Even though some of the arguments raised can be seen as survivalist, there are some valid arguments raised that warrant the attention of the government as a shareholder and policy maker. Specifically the fact that there is no new demand for electricity in South Africa, and therefore the addition of new power is likely to result in the shutdown of Eskom plants to create space for renewables resulting in lower revenue. The challenge is that in the cycle of build where Eskom is, the balance sheet is highly indebted and Eskom requires the correct revenue to be able to pay its debt obligation and in the absence of demand prices will have to rise to sustain the revenue level resulting in negative impact on consumers. Alternatively Eskom could write off the assets and have the National Treasury honor its debt obligations linked to those assets (which, at 60% debt the fiscus can barely afford which means more taxes to raise the cash). So an evolutionary approach is required in the addition of new capacity to ensure maximum protection for consumers.