

DEPARTMENT OF ENERGY

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**Establishing the
Independent System & Market Operator
(ISMO)**

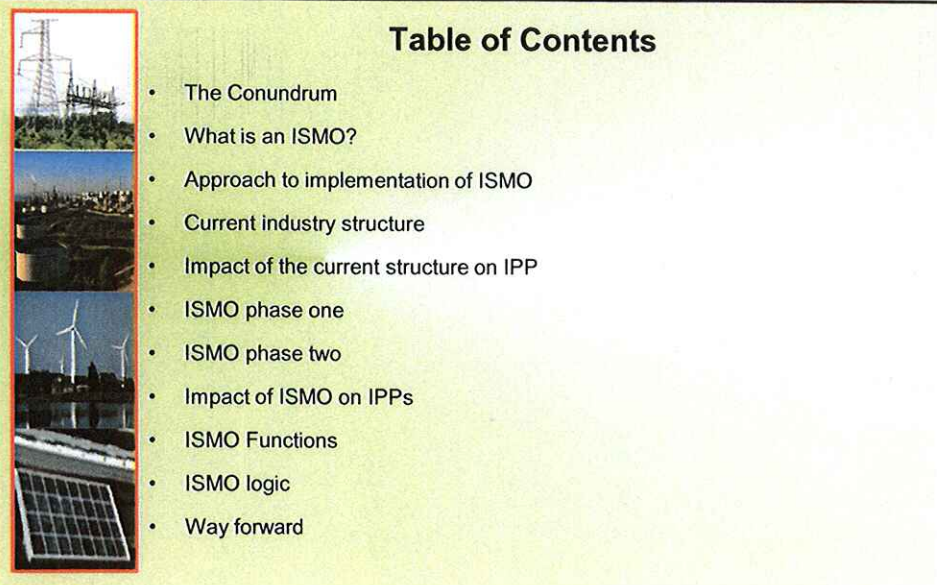



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The Conundrum

- SA urgently needs new generation capacity and, in turn, Eskom needs
 - Scarce Government capital to fund new projects
 - Tariff increases that have social and industrial impact
 - Additional debt that has, as a prerequisite, a viable ESI to repay them
- Minimizing Government exposure requires
 - Mobilizing private sector funding
 - Private sector, in turn, needs a level playing field and clarity of rules
- Minimizing inevitable tariff increases requires
 - Reducing overall sector risk with correct allocation of risks and reward
 - Better allocation of resources with correct electricity pricing signals



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What is an ISMO?

Acronym for "Independent System and Market Operator"

- "Independent" = Autonomy from generation and distribution
- "System" = National Electricity Transmission System
- "Market" = Buying of electricity from electricity generators and Selling thereof to customers at a wholesale level


ISMO = Operator of National Electricity Transmission System
who buys electricity from generators and
sells it to customers at a wholesale level



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APPROACH TO IMPLEMENTATION OF ISMO

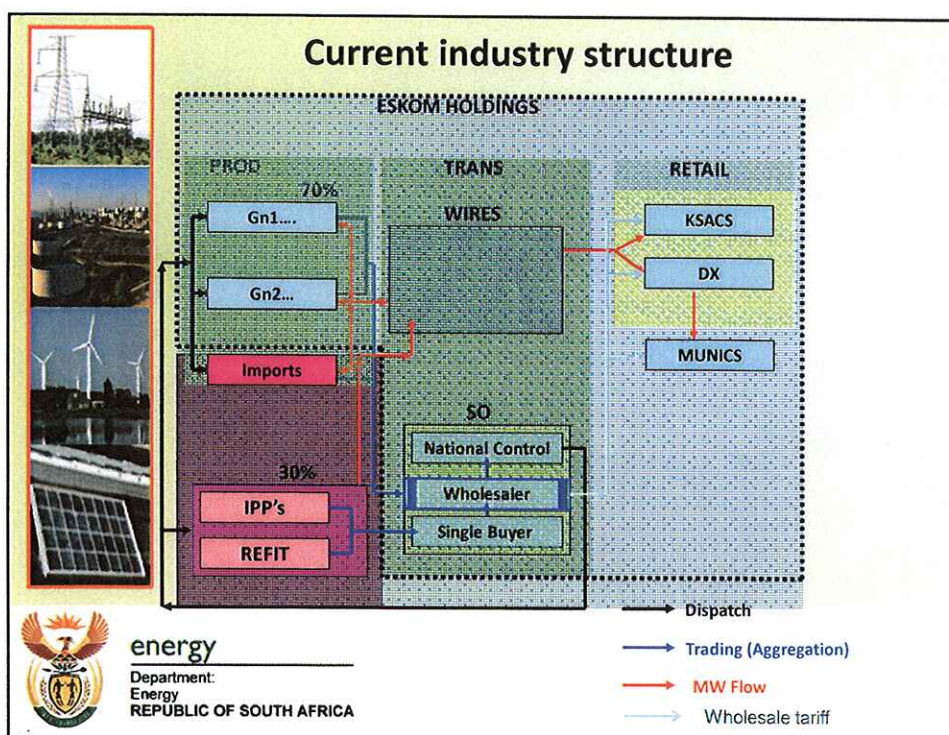
- Phase one (4 months)
 - Preparation for establishment of ISMO
 - Ring-fencing of the SO within Eskom
 - Due diligences – financial, technical, regulatory
 - Drafting of ISMO establishment legislation
- Phase two (two years)
 - Establishment of ISMO through legislation
 - Population of ISMO with functions in accordance with the outcome of the due diligence
- Phase three
 - Considering different option to ensure independence of the Tx network




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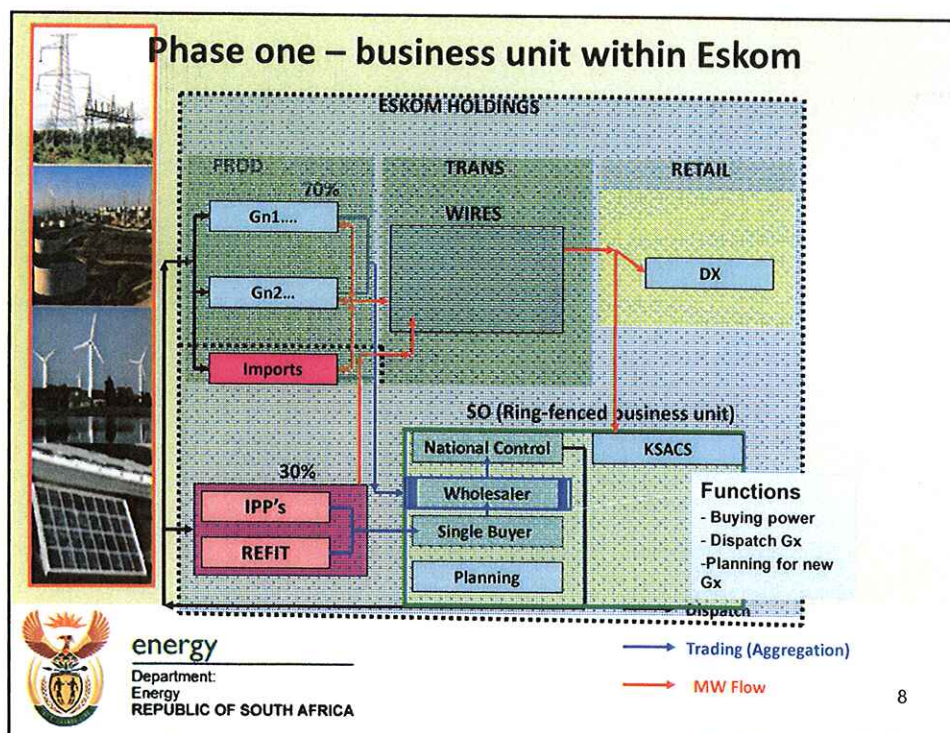


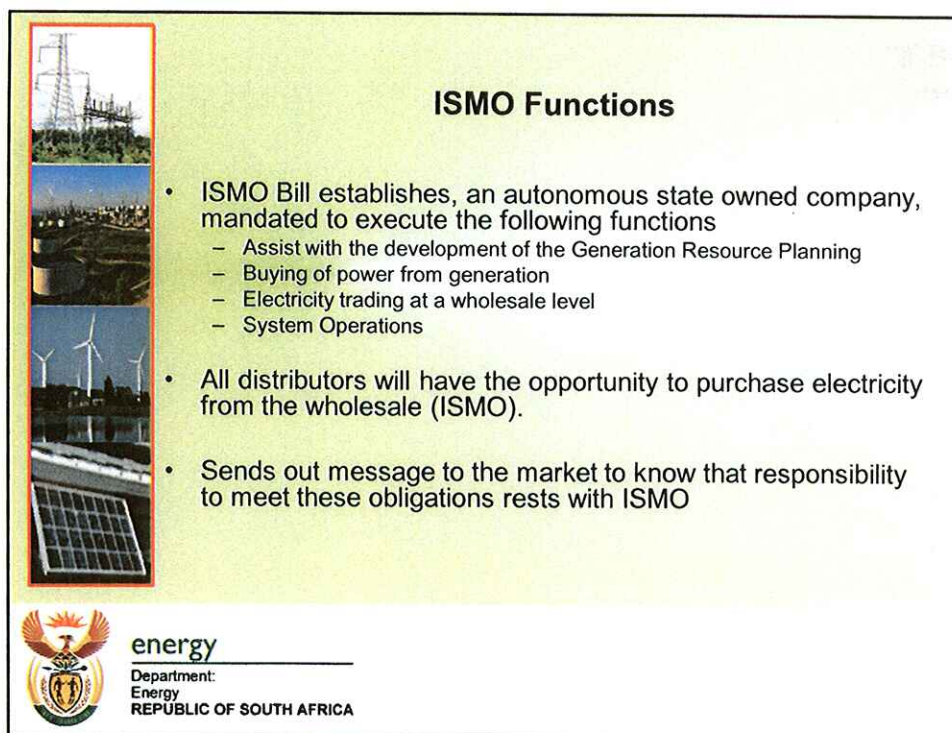
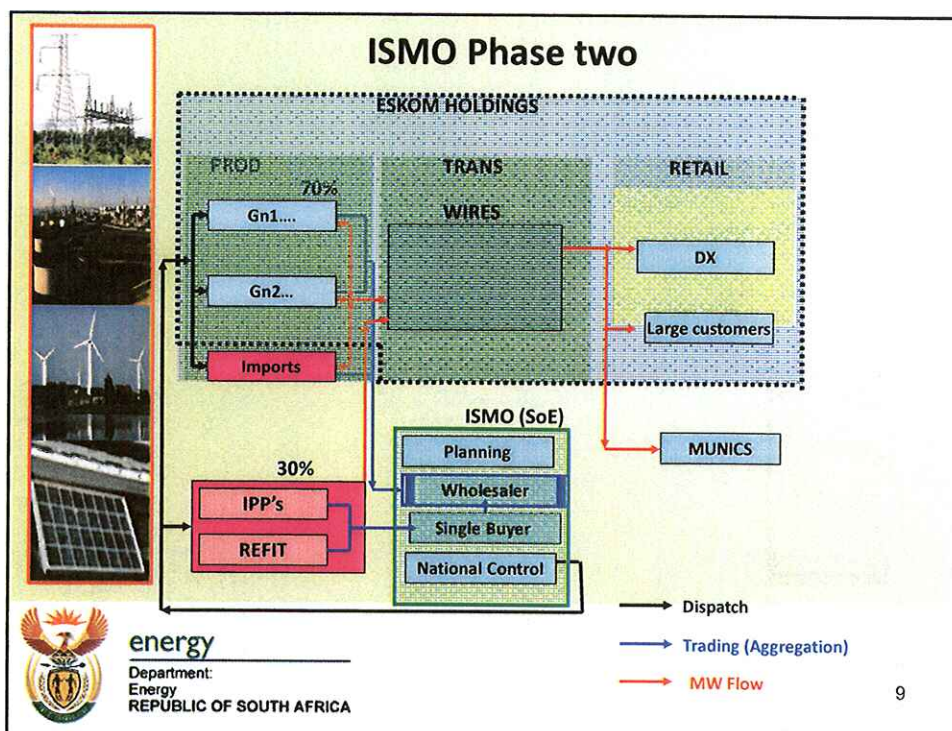



Impact of the current structure on IPPs

- IPPs have not been forthcoming in significant volumes due to
 - Perception of **conflict of interests** in vertically integrated Eskom
 - Perception that **Government is not serious** about industry reform
 - Perceptions about **long-term viability of present ESI** structure
 - **Lack of clear policy** specifically aimed at IPPs
 - **Lack of enabling legal/regulatory framework** to facilitate IPPs

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ISMO Logic

- Key among IRP objectives are
 - usher in a new era of IPPs
 - diversify energy mix into Renewable Energy sources
 - establish the associated enabling policies
- IPPs will not mobilize effectively unless system promotes
 - equitable access to grid for all participants
 - predictability of all costs and risk allocation principles
 - policies that enhance enabling environment for IPPs
 - regional cooperation

Bias cannot be eliminated unless an autonomous entity is set up to deal with these issues and the playing field is levelled



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