

## Electricity Governance Initiative South Africa

### Reporting On The Policy Assessment Framework For Renewable Energy Inclusion Into The National Grid

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During this year one of the most exciting initiatives undertaken by the EGI SA has been the development of a policy assessment framework for renewable energy. Since our current climate change policy stipulates that 42 % of new energy build between here and 2020 must be renewable energy, the EGI found it important to provide a tool for the evaluation of progress in this field. EGI SA decided that it is vital that the first wave of renewable energy is properly implemented, since mistakes at this stage could well undermine stakeholder support for this form of energy.

Piloting this tool against the actual roll-out of renewable energy proved to be an interesting exercise. The process in South Africa so far has been the promulgation of a Renewable Energy Feed-In Tariff (REFIT). REFIT was developed through a process of some public consultation in 2009 and 2010, after which guidelines were approved by the National Electricity Regulator (NERSA). However, in 2011, Treasury joined the Department of Energy abandoned the REFIT process in favour of a different approach, the Renewable Energy Bidding Program, later known as the Renewable Energy Independent Power Producer Procurement programme (REIPPP). EGI SA applied the Policy Assessment Framework to REIPPP.

Highlights from our report included the finding that the REIPPP process was opaque. **No information** was forthcoming from the Department of Energy on the extent to which laws, policy and Treasury regulations regarding procurement were followed. From the information available from the press, we found that no state financing of renewables would be provided, but that the total amount needed for the first round of REIPPP would be financed by private investment. Subsequent engagement with government officials revealed that treasury had committed to providing some form of guarantee to Eskom to ensure that it does procure renewable energy from the IPPs.

The lack of transparency in the process meant that there was no publicly available documentation that described how coordination should take place. Of deep concern was the fact that, as far as can be understood, the REIPPP process had not changed the financial distribution of funds. As far as can be understood, **Eskom (our national energy utility) would buy the electricity and pass through the costs to customers (blended into the average electricity cost)**. In government generally, the size of the budget allocated is normally a sign of the level of official commitment. The complete lack of a budget for REIPPP was cause for misgivings about the level of seriousness with which the state approached renewable energy and climate change mitigation. The abandonment of a feed-in tariff – system that has worked well to kick start renewable energy in other countries – is cause to doubt whether South Africa will be able to reach its mitigation targets as set out under the National Climate Change Response Policy.

Moreover, REIPPP violated the most basic tenets of governance. The abandonment of REFIT and the introduction of REIPPP took place without any **public consultation, access to information or transparent decision-making**. There was no consultation with civil society regarding the decision to use a tendering process, nor on how the price would be determined, or on any of the criteria used to select successful bidders. The Department of Energy was reluctant to release any details of the tender documents, and in the end did so only under a Promotion of Access to Information Act request, and upon payment of a hefty fee.

Finally, our assessment pinpointed weak institutional capacity as posing a substantial obstacle to implementation. The simultaneous development of the REIPPP process by DoE and NERSA, and the

REFIT Review 2011 by NERSA show a clear lack of coordination between relevant institutions. Changes in regulations during 2011 appear to have added to the confusion. However, once the decision was made by the Minister of Energy, to proceed with a REIPPP process, NERSA has played its role in processing licenses for the successful bidders. Eskom's role in the renewable energy procurement field has been problematic. Draft PPAs released for comment during the REFIT process appeared to push significant risk on to IPPs without Eskom accepting any risk itself. Eskom controls the grid but is, in turn, both a competitor of IPPs and the sole buyer, leading to a conflict of interest.

#### Appendix A: key findings from the Policy Analysis Framework tool<sup>1</sup>

Category	Framework Question	Response	
Finance	Do institutions have the capacity to distribute finance?	NERSA received an unqualified audit in both 2008/09 and 2009/10. The AG report for 2010/11 raises a number of key deficiencies in the financial reporting including unauthorized expenditure, failure to spend funds according to planned activities etc.	 
Administration/ coordination	Is the policy being administered as planned?	NERSA initiated a REFIT review process without the REFIT ever having been implemented. The DoE then abandoned the REFIT without public consultation or detailed explanation, although media coverage implied that DoE was convinced that it was too expensive.	
Administration/ capacity	Do institutions have the capacity to administer the policy?	Treasury and DoE led the REIPP, using consultants (assume therefore that insufficient internal capacity). Clear timeframes were set for procurement deadlines but some slippage is occurring on DoE's side. NERSA - License applications for the 28 successful bidders are anticipated to be finalized in May 2012, ahead of the DoE deadline of June 2012.	 
Administration/ transparency	Has information about the policy roll-out been disclosed? Are documents easy to access by a range of stakeholders?	There is only paid access to REIPPP tender documents. The invitation to tender in terms of REIPPP and tender documents are subject to an up-front R15,000 fee and signature of a strict confidentiality agreement.	
Administration/ public participation	Have stakeholders been engaged in decisions about regarding the implementation?	The REIPPP process failed to offer civil society stakeholders any opportunity to engage with its development	
Monitoring	Has information about the procedures for monitoring results of the policy been disclosed?	REIPP is operational but there is no generation into the grid from new IPPs yet. Update: Clear timeframes were set for procurement deadlines but some slippage is occurring on DoE's side. It is not clear how social (gender or social responsibility), BBEE, or LED commitments will be monitored.	
Enforcement	Is the policy being enforced?	Theoretically non-compliance would result in licenses being removed. In practice this may be difficult. Update: Claw back of revenue is one option, but NERSA can only revoke licenses if licensee applies.	

<sup>1</sup> Some amendments were made to update information for workshop purpose