

OPERATION VULINDLELA

Supporting
the Implementation
of Priority Structural Reforms



Energy market reform in the context of the Energy Action Plan

Market Code Launch
18 April 2024



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA



**STAY
SAFE**

VACCINATE TO SAVE SOUTH AFRICA

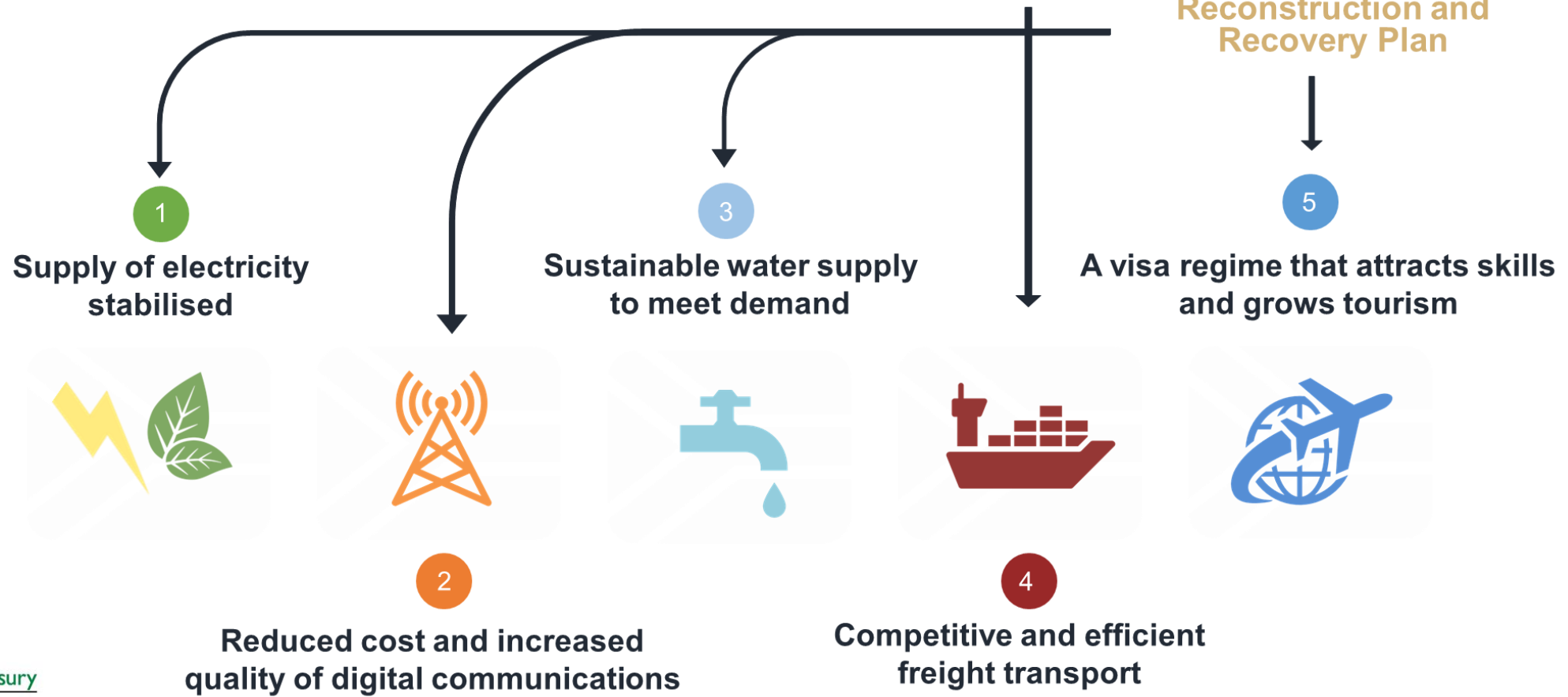
Operation Vulindlela



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Five desired outcomes of Operation Vulindlela as part of the Economic Reconstruction and Recovery Plan



Energy Action Plan



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In July 2022, President Ramaphosa announced a range of measures to tackle the energy crisis in five areas:

- 1 Fix Eskom and **improve the availability of existing supply**
- 2 Enable and **accelerate private investment** in generation capacity
- 3 **Accelerate procurement of new capacity** from renewables, gas and battery storage
- 4 Unleash businesses and households to invest in **rooftop solar**
- 5 Fundamentally **transform the electricity sector** to achieve long-term energy security

In the short term, improving the performance of Eskom's existing power stations and adding new generation capacity is crucial to reduce the severity and frequency of load shedding. **In the long term, however, reform of the energy sector is required to address the root causes of load shedding and ensure a secure and sustainable supply of energy in future.**



*“The measures I have outlined are not just to **address our immediate constraints.***

Our ultimate objective is to achieve long-term energy security, so that we never have to experience an electricity shortage again.

*We aim to do this by stabilising Eskom and improving plant performance, **establishing a competitive electricity market**, opening the way for private investment in new generation capacity and increasing our investment in renewables.*

*These measures are necessary to **revive economic growth** and create jobs.*

*In the process, **we will position our country as a leading player in the transition to new and sustainable energy sources**, turning this crisis into an opportunity for future growth and resilience.”*

- President Ramaphosa, 25 July 2022

NECOM as a mechanism for coordination and oversight

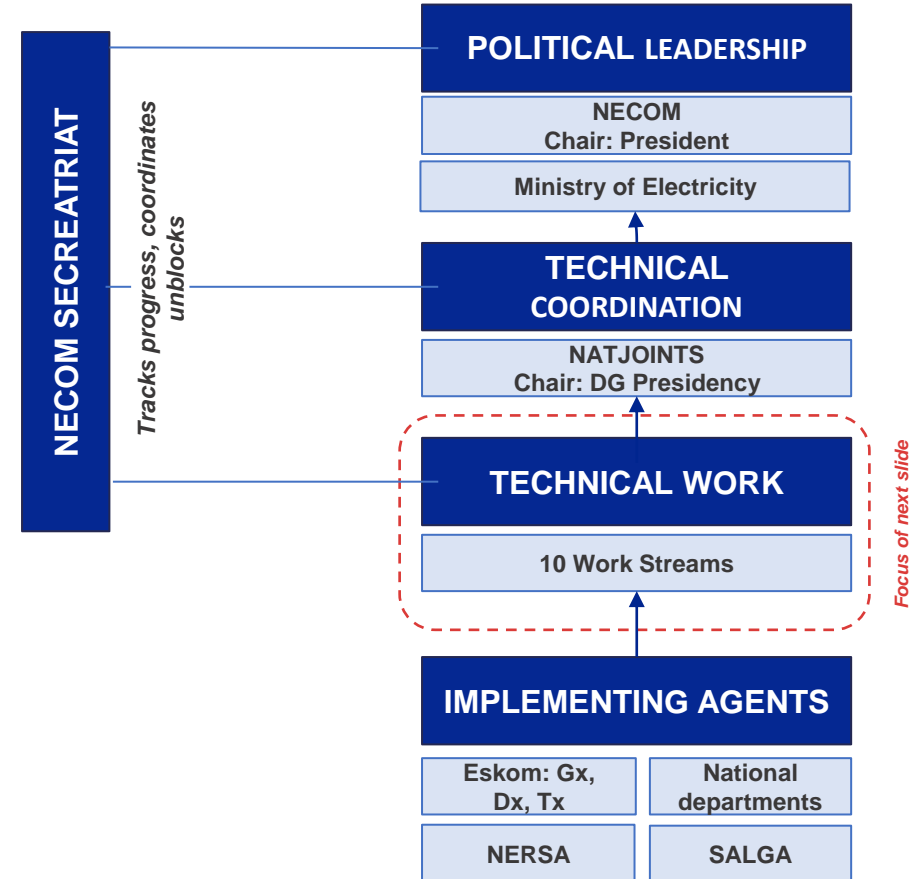


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The **National Energy Crisis Committee (NECOM)** brings together all relevant government departments and agencies as well as key stakeholders to coordinate implementation of the Energy Action Plan. The NECTOM Secretariat drives the plan through a delivery-focused approach:

- Prioritisation of the key issues
- Time bound action plans
- KPIs to consistently track progress
- Collective problem solving & unblocking
- Systematic, frequent reporting
- Presidency oversight



Policy context of energy market reform

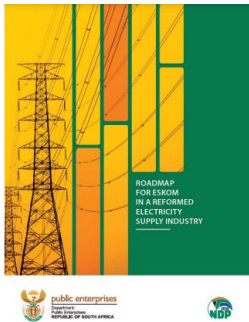


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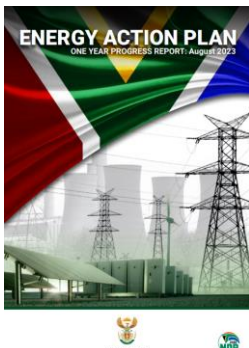
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The 1998 White Paper on Energy Policy set out government’s vision for the energy sector, including the vertical and horizontal unbundling of the electricity supply industry, separating competitive and natural monopoly components, introducing competition, ensuring non-discrimination, enabling open access to transmission, and establishing independent regulation. The Energy Policy identified an independent transmission entity as a necessary step.



The 2019 Eskom Roadmap laid out a plan to implement these policy commitments by providing direction for the restructuring of Eskom, in the context of a worsening electricity supply shortfall and significant underperformance of the current market structure. The roadmap provides for the establishment of the National Transmission Company of South Africa (NTCSA) to act as an independent transmission, system and market operator.



The Energy Action Plan, announced by President Ramaphosa in July 2022, recognises that reform of the energy sector is crucial to achieving long-term energy security for all South Africans. In addition to short-term interventions to alleviate the immediate energy supply shortfall, the plan reinforces the importance of the restructuring of Eskom and the establishment of a competitive energy market in achieving adequacy of supply and preventing the return of load shedding.

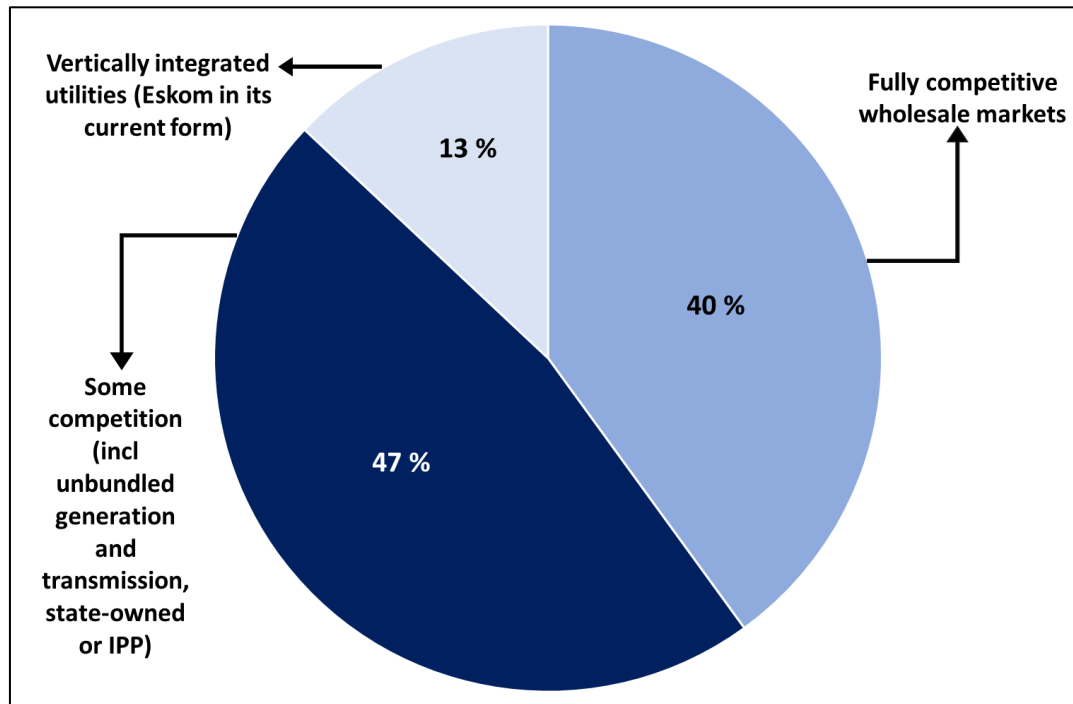
International trends in energy sector reform



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Status of market liberalisation (as % of global demand)



Source: International Energy Agency (2020)

- The **global shift towards power sector reforms** was marked by the unbundling of vertically integrated electricity utilities and a drive towards enhancing competition, primarily within generation.
- The rationale behind unbundling is that competition can be introduced in power generation, thereby **improving energy supply and increasing investment, while the grid remains under regulated monopoly control**. Unbundling and independent transmission entities also remove conflicts of interest in a state-owned vertically integrated utility where the utility generates power while also controlling the transmission network.
- **More than 90 countries globally have unbundled electricity utilities** and established either combined Independent Transmission/System Operators or separate System Operators and Independent Transmission Operators, with the majority typically remaining under state ownership.
- At least **21 upper-middle-income and 24 lower-middle-income countries have undertaken unbundling and restructuring reforms**, including all of the BRICS member countries, China, Russia, India and Brazil.

The rationale for energy market reform



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- South Africa's energy sector faces three simultaneous imperatives:
 - To ensure **security of supply**, now and into the future
 - To ensure **access and affordability** for all South Africans
 - To keep up with **rapid technological changes** and the need to **decarbonize the energy system**
- The current energy crisis presents a **unique set of challenges** that we will need to navigate carefully, including an acute energy supply shortfall; a constrained fiscal environment; and historical underinvestment in transmission and distribution infrastructure
- At the same time, the crisis presents a **unique opportunity** for fundamental transformation of the energy system. In this context, the establishment of **wholesale competition in energy generation** is a crucial step toward energy security, for a number of reasons:
 - It will allow multiple generators to **invest in new generation capacity** based on clear price signals in order to meet current and future projected demand, reducing the risk of reliance on a single supplier.
 - The introduction of competition between generators will result in **greater efficiency**, as generators must compete in the market. In addition, it will result in **lower energy prices**, compelling energy suppliers to offer competitive pricing in order to attract and retain customers.
 - The **financial sustainability** of the energy sector will be increased, as risk is spread across multiple entities rather than concentrated in Eskom.

Progress in energy market reform



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Significant progress has been made on the journey towards reform of the energy system.

- The **removal of the licensing threshold** for private generation facilities has unlocked substantial private investment in new generation capacity, with a growing pipeline of **over 22 GW of projects with an investment value of R393 billion**
- The **Electricity Regulation Amendment Bill** is currently in the National Council of Provinces, and is expected to be passed before the end of the Sixth Parliament
- The **establishment of the National Transmission Company of South Africa** is nearing completion, with the NTCSA expected to commence trading in July 2024
- The following key next steps are being prioritised:
 - The **development of a market code** for submission to NERSA
 - The **establishment of a market operator** within the NTCSA with appropriate capacity and systems to oversee the market
 - The **further unbundling of generation and distribution** to complete the restructuring of Eskom
 - The implementation of an **effective wheeling framework** to enable supply of power to customers in municipal distribution networks

The Electricity Regulation Amendment Bill and the market code



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- The Electricity Regulation Amendment Bill, or ERA Bill, provides for a fundamental overhaul of South Africa’s energy system. **The most important objectives of the Bill are:**
 - Establishing an independent Transmission System Operator which will manage South Africa’s national electricity grid, including a System Operator and Market Operator
 - Creating a competitive electricity market, enabling multiple electricity generators to compete on a level playing field
 - Ensuring that regulation (including of tariffs) is transparent, effective and clearly defined in scope
 - Providing certainty to all participants in the market regarding their roles and responsibilities
- The ERA Bill outlines a **clear process for the development of the market code**, which will be developed by the market operator and submitted to NERSA for approval: *“A market operator must...develop a market code and rules, including qualifying criteria for power market participants, approved by the Regulator.”*
- While the ERA Bill will establish the parameters for the future market structure, the design of the market will be provided for through policy and regulation to ensure adaptability as circumstances evolve.

Conclusion



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- The central theme of the ERA Bill is **the shift away from a predominantly single-buyer electricity market, dominated by Eskom, towards the establishment of a competitive multi-market structure** where multiple electricity generators can compete on a level playing field within an open market platform.
- This means that while the transmission network will remain state-owned, South Africa will have many electricity companies competing to **provide power most efficiently and cheaply.**
- The ERA Bill is a crucial part of government's plan to address South Africa's energy crisis, bring an end to load shedding and **transform the country's electricity sector** to achieve long-term energy security.
- A transition to a competitive energy market structure **will increase generation capacity and enhance energy reliability, therefore reducing power outages.** Furthermore, this transition has the potential to attract private investment into the energy sector. New players in the sector will increase innovation and strengthen the skills base and technical capacity while contributing to **economic growth and job creation.**

The development of a market code is a crucial step towards reforming the energy sector to address the electricity crisis and ensure long-term energy security while supporting growth and employment.