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Department:
Minerals and Energy
REPUBLIC OF SOUTH AFRICA

2009

NERT Communiqué No. 4 – July 2009

Status Update on the CoGeneration Workgroup

Introduction

This National Energy Response Team (NERT) Communication Brief is to update Key Electricity Customers and Stakeholders on the status of the National Energy Response Team's CoGeneration and Market Workgroup (CoGen WG) and to recap on its purpose and key objectives. This communiqué also summarises the progress of the workgroup and the short term plan as it relates to cogeneration.

Background

A National Energy Response Team (NERT) has been set up to coordinate and facilitate all the implementation activities that is taking place as part of the response to the shortage of electricity supply with the aim to prevent load shedding and to put South Africa on a more sustainable path.

Various workgroups were created when the electricity emergency manifested itself at the beginning of 2008 and the Cogeneration and Market workgroup (Cogen WG) was one of these workgroups. A decision was taken in the latter part of 2008 to establish a Programme Management Unit (PMU) to assist in the management, monitoring and reporting as well as issue facilitation of cogeneration initiatives within the scope of the Cogen WG.

A formal kick-off session was held on 17 February 2009 with Cogen WG representatives to review the cogeneration work embarked upon in 2008 as well as the establishment of the Terms of Reference (ToR) for the Cogen WG going forward. The definition of cogeneration has been extended to include other forms of generation and thus cogeneration was defined as:

"A product of an underlying industrial process; generation through renewable energy sources and through all other independent power producers for own use or for sale. This refers to all prospects for generation outside of Eskom and households".

The aim of the workgroup is to ensure that additional electricity capacity is generated and added to the national grid to improve the reserve margin; provide options and recommendations with credible motivation to relevant stakeholders to create a sustainable enabling environment; facilitate and provide strategic advice in the development of government policies and regulations to encourage participation in cogeneration by the private sector.



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Workgroup Purpose and Objectives

The workgroup's specific objectives are formulated as:

- Develop an implementation framework for NERT which will encourage cogeneration and define the future electricity market;
- Determine targets to increase supply to the grid in order to improve the reserve margin through cogeneration, base-load independent power producers and renewable energy programmes;
- Research market interests in cogeneration participation, identify inhibitors, resolve constraints, promote collaboration and facilitate the creation of an enabling environment.

Workgroup Progress to Date

The workgroup has determined the potential supply of additional generation capacity and the expected plant commissioning dates that can be delivered through the various procurement programmes managed by Eskom and the Department of Energy such as:-

1. Pilot National Cogeneration Programme (PNCP);
2. Medium Term Power Purchase Programme (MTPPP);
3. Next Phase Cogeneration Programme;
4. Base-load Independent Power Producer;
5. Department of Energy Peaking Plant;
6. Renewable Energy Programme;
7. Municipality Programme.

In order for this potential supply to be delivered, an enabling environment needs to be created to support the implementation of these programmes. To this end, a number of enabling environment initiatives has been identified and task teams were formed to address the following initiatives:-

1. Develop feed-in tariffs for cogeneration (COFIT);
2. Facilitate the development of an appropriate power purchase agreement that considers needs of buyers and sellers;
3. An appropriate market should be defined and created for South Africa;
4. Policy regulation for short, medium and long term markets with appropriate source mix;
5. Determine grid access conditions;
6. Finalise new generation capacity regulation;
7. Finalise cost recovery mechanism rules;
8. Independent Single Buyer Office or an Independent System Operator;
9. Clarification of whether cogeneration will follow REFIT or competitive bidding.



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To understand the challenges in the cogeneration market environment, a study was conducted, which included interviews with market players and the evaluation of the PNCP and MTPPP programmes. An evaluation report was compiled identifying critical enablers to ensure improved market participation and the successful conclusion of a power purchase agreement.

Government has also published the cost recovery mechanism rules and the new generation capacity regulations which were available for public comment.

Next Focus Areas

The workgroup task teams will focus on producing recommendations and reports for those enabling environment initiatives that are due over the next two months. The workgroup will create a task team to address the implementation of the independent system operator, which was one of the key points mentioned in the Minister's of Energy budget speech dated 23 June 2009. We expect the revised new generation capacity regulations and cost recovery mechanism rules to be promulgated shortly.

Conclusion

Good progress has been made in identifying the various procurement programmes required to supply additional capacity to the grid and initiatives to create the enabling environment. The technical input and participation of the workgroup members have proven to be invaluable. However, the current challenge of ensuring that the supply capacity will adequately satisfy the demand requirement over the next decade has to be addressed now. To meet this challenge, independent power producers, cogenerators and renewable energy developers will play a critical role in the generation environment and their participation must be encouraged. Furthermore, it is essential that the market reform process be introduced to create a conducive environment for both the buyers and sellers of electricity.

It is clear that there is a reasonable amount of cogeneration and distributed generation capacity available in the market and that an attempt should be made to harvest this capacity, either through a formal procurement programme or by encouraging self generation bilateral agreements.

The success of unlocking the untapped potential is dependent on a concerted effort by all the stakeholders in the industry. By developing institutional capacity in the local market and using the best practices and lessons learned from other markets, South Africa can develop a viable cogeneration and distributed generation sector.



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If you have any queries or require additional information with regards the NERT Workgroups, please send an e-mail to info@nert-pmu.co.za. You are also invited to view the energy efficiency website on www.savingenergy.co.za, for information on Energy Efficiency as part of the National Energy Efficiency Campaign lead by government.

Regards,

Dr Willie De Beer
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