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Dear Sirs

RELEVANT INFORMATION CONCERNING THE COAL IPPS – A STUDY BY THE ENERGY RESEARCH CENTRE

1. We address you as the Life After Coal/Impilo Ngaphandle Kwamalahle Campaign (made up of the Centre for Environmental Rights (CER), groundWork (gW) and Earthlife Africa ("Earthlife").[1]

[1] Website available at https://lifeaftercoal.org.za/

2. The Life After Coal Campaign aims to discourage investment in new coal-fired power stations and mines; accelerate the retirement of South Africa's coal infrastructure; and enable a just transition to renewable energy systems for the people.

3. We refer to the generation licence applications of the two proposed independent power producer (IPP) coal-fired power stations, Thabametsi and Khanyisa. The Life After Coal campaign has submitted written objections in respect of both applications (which were supplemented in March 2018) and we have made representations at the public hearing in respect of the applications. In our objections on 27 March 2018, we have consistently maintained that:

   3.1. licensing Thabametsi and Khanyisa would not be in the public interest as these plants will have significant impacts on human health, the climate, the environment, and the economy (with new coal now being much more expensive than the latest renewables IPPs at R1.03 compared to the 62c for the renewables[2]) should they be allowed to proceed; and

   3.2. these additional coal-fired power stations are not needed and will cost South Africa more money than feasible alternatives.

4. Importantly, we note that these views were shared with a variety of stakeholders who presented at the hearing on 27 March 2018 – including Eskom, which argued that these power stations would place undue financial pressure on both Eskom and South Africa. We have still not received – and continue to await - a response from you to our letter of 4 April 2018, wherein we have sought clarity on the number of NERSA members present at the hearing and also on whether further hearings will be held in the affected areas where the power stations will be located, namely Lephalale and eMalahleni. As far as we are aware the generation licence applications remain pending and we reserve all rights in relation to the validity of the hearing process.

5. To further substantiate the points made above, we wish to refer you to an important report recently published by the University of Cape Town's Energy Research Centre (ERC) entitled "*An assessment of new coal plants in South Africa's electricity future: the cost, emissions and supply security implications of the coal IPP programme*" ("the **ERC report**"). A copy of this report is attached.

6. The ERC report models several scenarios for an assessment of the effects of building the two coal IPP preferred bidders – Thabametsi (at 557MW) and Khanyisa (at 300MW) – compared to a future electricity build plan that excludes them. The modelling investigates: supply security; the cost implications of the inclusion of the coal IPPs on the system relative to cheaper alternatives; the emission 'lock-in' from the plants; and the effects this has on South Africa meeting its long-term climate change commitments. According to the report, since a least-cost electricity build plan for South Africa **does not include new coal plants**, in each scenario, the coal IPPs had to be forced into the model in order to compare the effects on the system.

7. The findings of the ERC report are, *inter alia*, that:

   7.1. the proposed Thabametsi and Khanyisa coal-fired power stations will cost South Africa an additional **R19.68 billion** in comparison to a least-cost energy system;

[2] See http://www.ee.co.za/wp-content/uploads/2016/10/New_Power_Generators_RSA-CSIR-14Oct2016.pdf at p7.

7.2. the coal IPPs are not needed to meet South Africa's medium-term electricity demand, as alternate electricity sources i.e. wind, solar pv, and flexible gas generation are more economical; and

7.3. the coal IPPs will increase greenhouse gas (GHG) emissions by **205,7Mt CO2eq** over the 30 year period of the power purchase agreements. This would negate the government's GHG emission mitigation plans and efforts, including the expected savings of the entire Energy Efficiency Strategy to 2050. Even in a best-case scenario for the coal IPPs (with GHG emissions curtailed as far as possible), the two coal IPPs would still negate the emissions saved under the carbon tax and frustrate South Africa's commitments under the Paris Agreement, through raising the costs of mitigation technology and requiring significant GHG emission reductions in the power and other sectors.

8. In short, the ERC report finds that the inclusion of the coal IPPs in South Africa's electricity build plan raises the total system costs compared to a scenario without the coal IPPs. Similarly, in all scenarios, the coal IPPs increase GHG emissions. These increases, both in costs and in GHG emissions, are significant.

9. In relation to Eskom, the ERC report states that:

9.1. *"Not only are the coal IPPs not required to meet demand, and not only do they raise costs, and increase emissions, but they also **result in increasing pressure on Eskom. Building new coal plants in a situation of low demand means reducing the output of Eskom's fleet, potentially accelerating the 'utility death spiral' in which Eskom already finds itself and putting the electricity supply industry – and thus the South African economy – at risk**"* (emphasis added);[3] and

9.2. "*When the coal IPPs are forced into the electricity build plan, this results in **decreased use of existing coal plants (which are also cheaper than the coal IPPs), which puts raises (sic) costs overall and puts Eskom at risk***" (emphasis added).[4]

10. ERC concludes that "*the implications of these findings are clear. South Africa is currently facing a large surplus in generation capacity, in particular inflexible base supply capacity. Eskom is facing a financial crisis and rising electricity prices will drive consumers away from the utility. Investments that unnecessarily increase costs in the electricity sector should be avoided*."

11. In terms of the New Generation Regulations, 2011, before Eskom concludes a power purchase agreement with the IPPs, Eskom or DoE must, subject to any approvals required in terms of the Public Finance Management Act: "*put in place arrangements to ensure that any portion of the buyer's allowable revenue approved or allocated by the Regulator for purposes of implementation of new generation capacity projects will be used solely for the purpose of ensuring that the buyer's financial obligations in respect of new generation capacity projects will be met*."[5] Regulation 9 states further that, NERSA shall, when determining licence conditions relating to prices, charges and tariffs, **ensure that the buyer (Eskom) is able to recover, at least, the full amount of the costs incurred by the buyer**,[6] **including all other costs efficiently incurred by the buyer in participating in an IPP procurement programme and in purchasing new generation capacity through new generation capacity projects**, including, without limitation, operating expenditure, professional

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[3] P8, ERC report.
[4] P17, ERC report.
[5] Reg 9(2).
[6] Reg 10.

fees, and hedging costs. This appears to mean that the significant additional costs referred to in the ERC report must be borne by the consumer. This would certainly **not** be in the public interest.

12. The ERC report is further evidence of the position held by Life After Coal Campaign – that Thabametsi and Khanyisa – are highly risky and harmful projects, financially, socially and environmentally.

13. In light of the ERC report findings and our previous objections to the applications, which highlight the significant health, climate, and environmental impacts of coal-fired power stations, we wish to reiterate that the licensing of these projects would not be a reasonable or lawful decision as required by the Promotion of Administrative Justice Act, 2000, and would be met with significant opposition from civil society.

14. We trust that our objections and the findings of the ERC report will be fully considered by NERSA and inform any decision in relation to generation licence applications for these two coal IPP projects.

15. Please feel free to contact us should you wish to discuss these findings in further detail, or request any additional information in relation to the ERC report.

16. We continue to await your response to our letter of 4 April 2018.

Yours faithfully

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