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Dear Honorable Minister Nene

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[1] – which aims to discourage investment in new coal-fired power stations and mines; accelerate the retirement of

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

South Africa's coal infrastructure; and enable a just transition to renewable energy systems for the people.

2. We write to you to bring to your attention to a recent study 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**"), the findings of which are relevant for National Treasury and the people of South Africa. A copy of this report is attached.

3. The ERC report models several scenarios for an assessment of the effects of building the two preferred bidders under the first bid window of the Coal Baseload Independent Power Producer (IPP) Procurement Programme – Thabametsi (at 557MW) and Khanyisa (at 306MW) ("**the coal IPPs**") – 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.

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

   4.1. 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;

   4.2. 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

   4.3. the coal IPPs will increase greenhouse gas (GHG) emissions by **205,7Mt CO_2eq** 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.

5. 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.

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

   6.1. *"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);[2] and

6.2. "*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).[3]

7. 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***" (emphasis added).

8. We are aware that National Treasury ("the **Treasury**") plays a crucial role in ensuring the financial security of South Africa. One of its functions in terms of the Public Finance Management Act, 1999, is to "*promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of departments, public entities and constitutional institutions*".[4] We note that Treasury describes its mission as "*to promote economic development, good governance, social progress and rising living standards through accountable, economic, efficient, equitable and sustainable management of South Africa's public finances*".[5]

9. We refer to the Minister's Budget Vote Speech of 22 March 2018,[6] which announced the following in relation to state-owned companies:

9.1. *"**We need to rebuild trust in our public institutions and the integrity that they should stand for***" (emphasis added);

9.2. "*State owned companies have a substantial impact on perceptions of the sustainability of public sector debt in South Africa – and as a result, confidence and growth momentum. Perhaps most critically though, we must acknowledge the impact of SOCs on the cost structure of the economy and our overall competitiveness*"; and

9.3. "*Intensive National Treasury interventions are specifically targeted at the liquidity positions of the SAA and Eskom and aim to stabilize the financial positions with the immediate intention of limiting government's exposure to these entities.* ***Going forward, efforts are underway to enable these entities to operate on the strength of their own balance sheets***" (emphasis added).

10. The ERC report shows that the coal IPPs will cost South Africa an additional R20 billion (not taking into account external costs and impacts); substantially increase the costs of electricity – which will have detrimental impacts for consumers; and will further destabilise Eskom's precarious financial position, placing Treasury at risk. The Campaign strongly disputes that these costs would promote effective management of South Africa's finances.

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[2] P8, ERC report.
[3] P17, ERC report.
[4] S6(1)(g).
[5] Refer to: https://nationalgovernment.co.za/units/view/27/department-national-treasury
[6] Available at:
http://www.treasury.gov.za/comm_media/speeches/2018/National%20Treasury%20Budget%20Vote%207%20Speech.pdf

11. The Life After Coal Campaign has always maintained that Thabametsi and Khanyisa are – financially, socially, and environmentally – highly risky and harmful projects, which are not in the public interest. To further elaborate:

    11.1. both power stations will have significant and irreversible impacts for water, air and our climate. They will use large volumes of scarce water needed by communities and also put South Africa's already vulnerable water resources at a high risk of pollution;

    11.2. due to the technology proposed for both plants – these projects are incredibly GHG emission intensive, with an emission intensity almost 60% higher than Eskom's Medupi and Kusile power stations;

    11.3. these coal IPP projects do not provide a non-replaceable economic benefit. If and when additional electricity is needed, it would be preferable – and reasonable – to procure more renewable energy capacity, which would provide more jobs and clean and cheap electricity; and

    11.4. South Africa does not need new coal-fired power capacity. These power stations will simply increase the costs of electricity for consumers.

12. In light of the current excess electricity capacity, Eskom's dire financial position, the high cost of electricity from the coal IPPs in comparison to the latest renewable IPPs,[7] and constantly-rising electricity tariffs, we submit that the coal IPP projects are not in the interests of the people of South Africa, Eskom, or Treasury.

13. Should you wish to discuss these findings in further detail, please feel free to contact us.

Yours sincerely

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