Sustainable Energy Briefing 14
Energy Policy Review: 2007/2008

Sustainable Energy Briefing 14 outlines the status of energy policy matters at the end of 2007. This roundup starts with a brief description of this year's Energy Summit and related plans for 2008. It then examines progress under the 1998 White Paper for Energy Policy (the Externalities Study, the Developmental Electricity Pricing Programme, and Access to Energy Services), followed by summaries of where the National Energy Bill, Energy Targets and Integrated Energy Planning are going. Following this, progress with the Long-Term Mitigation Scenarios (LTMS), a Cabinet-mandated process to address climate change, is highlighted. The final policy issue featured is the proposed Eskom price hikes.

Energy Summit

Minister Bulelwa Sonjica of the Department of Minerals and Energy (DME) has promised a series of provincial 'mini-Summits' in 2008, to enable adequate public consultation in taking forward the review of energy policy initiated at the National Energy Summit of September 2007. The primary focus will be the White Paper on Energy Policy for RSA (WPEP) adopted in 1998. Details of the process, promised well in advance, are not yet available.

As noted at the Summit by Adv. Nogxina, Director General of the DME, the objectives of the 1998 WPEP reflect the need to achieve a balance between sustainable growth, economic growth, environmental management and the securing of supply in the energy sector. This must also serve to address the distortions created by our apartheid past.

The DME has recognised that South African energy policy and the regulatory framework should endeavour to manage the contestation of vested interests in the energy sector. Therefore reviewing the WPEP should provide satisfactory guidelines to allow increased access to affordable electricity (sustainable energy services), improved energy governance, and economic development, and prevent or minimise energy-related environmental impacts.

The DME Strategic Plan 2006/7 – 2010/11 notes the need to "assess the relevance of some of the policies in the context of the prevailing energy situation". Many changes in context were noted at the Energy Summit, from the now unequivocal evidence of climate change and increasing severity of anticipated impacts, to accelerating energy demand growth and the prospects of reaching peak oil, and later, peak gas, supply. However, a strong emphasis on short-term energy security concerns - particularly increasing supplies of coal-based electricity and liquid fuels – was consistent with the dominance of business and industry representatives at the Summit.

A key question for the review is whether there has been sufficient, or sufficiently balanced, implementation of the existing policy for it to be judged by the prevailing situation. It has been argued that current supply challenges result from the desire to encourage private sector participation. The demand-side approach, lately and belatedly forced upon Eskom, could have extensive public benefits if applied across the energy sector in a well-planned manner, focusing on meeting energy service needs efficiently.

1998 White Paper for Energy Policy (WPEP)

The 1998 White Paper for Energy Policy has the following objectives:

- Objective 1 - Increase access to affordable energy
- Objective 2 – Improve energy governance
- Objective 3 – Stimulate economic development
- Objective 4 – Manage energy-related environmental impacts
- Objective 5 – Securing supply through diversity

Implementation of the White Paper has been hampered by the lack of enabling legislation, e.g. for mandatory provision of information (including by state owned enterprises) and setting efficiency standards. However, some provisions of the 1998 White Paper have simply been ignored, including "ensuring that an equitable level of national resources is invested in renewable technologies, given their potential and compared to investments in other energy supply options;" (7.7). Others have been subject to very partial interpretation, such as the provision of Objective 3: "…energy prices to be as cost-reflective as possible. To this end prices will increasingly include quantifiable externalities." (5.2.3)

While the DME has three times deferred commissioning of an 'Externalities Study', prices in large-scale, long-term electricity supply contracts are being set in terms of a programme within the Department of Trade and Industry (DTI). This has not been through a proper policy process and fails to ensure that even currently accounted costs are covered. The civil society Energy Caucus has called for this 'Developmental Electricity Pricing Programme' to be rescinded immediately, and for no more contracts with 'contestable customers' to be concluded until the *de facto* policy of subsidising energy-intensive industry has been reviewed.

Failure to factor in costs that are borne by society as a whole, some of which are paid directly by the national fiscus, is a barrier to achieving WPEP Objective 1. Rapid expansion of the electricity distribution infrastructure has not ensured affordable services, and free basic provisions (where in effect) are too small to address the massive health damage, particularly to children, of indoor fuel use. This is also one aspect of the failure to implement Objective 4, which includes an undertaking that could be taken up within the policy review: "Government will work towards the establishment and acceptance of broad national targets for the reduction of energy-related emissions that are harmful to the environment."

National Energy Bill

Also anxiously awaited by civil society is the revised version of the National Energy Bill, which was scheduled to be put before parliament by the end of October. Published for comment and intended as an Act of 2004, the stated purpose of this legislation was: "To provide for the establishment of the National Energy Advisory Committee; to provide for the establishment of the National Energy Database and Information System; to provide for integrated energy planning; to provide for renewable energy and energy efficiency matters; to provide for energy safety, health and environmental matters; to provide for energy access by households; to provide for international energy obligations and to provide for matters connected therewith."

Integrated Energy Planning

With integrated energy planning still held in abeyance, while supply master-plans are unveiled, the viability of new fossil fuel infrastructure, even halfway into its intended 40-50 year lifespan, receives little attention. A rigorous energy policy review process next year would certainly contribute to implementing WPEP Objective 2 (Improving energy governance). This would logically include engagement with stakeholders on the national energy modelling system that will be used when the second round of integrated energy planning is resumed.

The DME is considering abandoning the modelling approach and tools, in use and extensively elaborated over more than a decade, in favour of the system used by the US federal government. The existing system is premised on exploring the most cost-effective means of meeting all the country's energy service needs and has been characterised as a 'demand-driven' approach. It can take account of any and all externalised costs, indicate sensitivity of plans to changes in costs such as fuel prices and integrate improvements in the efficiency of end-use appliances, from fridges to cars and industrial machinery. The US system, focusing more on the needs of the energy supply sector, is apparently simpler to operate. However, it took three years (rather then the planned two) for Canada to adapt the system for their use.

Renewable Energy and Efficiency Targets

Also required next year is review of the renewable energy target, set in 2003, and the Energy Efficiency Strategy, finally adopted in 2005, and associated Accord signed with business and industry. Both targets were developed when fossil fuel prices were low, energy security was of minor interest and international commitment to climate action was in question following US and Australia withdrawing from the Kyoto Protocol. As the new realities of the 21st century become incontestable, both need to be scaled up significantly. The RE target in particular, currently so small as to be a barrier to investment, needs to be redesigned, both to realise the employment potential and other social benefits of utilising our most neglected national resources and to attract to SA some of the international finance driving rapid expansion and progressive cost reductions in appropriate technologies.

Long-term Mitigation Scenario (LTMS)

In May 2006, the Cabinet commissioned the LTMS project as a response to the growing focus, both globally and in South Africa, on the issue of climate change. It has three objectives:

1. South African stakeholders understand and are focused on a range of ambitious but realistic scenarios of future climate action, both for themselves and for the country, based on best available information - notably long-term emissions scenarios and their cost implications;
2. The SA delegation is well-prepared with clear positions for post-2012 dialogue; and
3. Cabinet can approve (a) a long-term climate policy and (b) positions for the negotiations under the United Nations Framework Convention on Climate Change

A Scenario Building Team involving strategic thinkers from government, business and civil society has engaged in technical work to produce scenarios, informed by the work of four research teams. The outputs will be published after a high-level meeting involving the Inter-Ministerial Committee on Climate Change in the first quarter of 2008. It is envisaged that thereafter a consultative process will be initiated to develop national policy. Further work will be needed to explore South Africa's options for adapting to climate change, which will probably be

undertaken under the process of preparing our 2nd National Communication to the UNFCCC, next year.

Electricity Tariffs

Eskom and municipalities are planning to dramatically increase electricity tariffs to poor households, defined by the National Energy Regulator of South Africa (NERSA) as domestic low users (of up to 100kWh per month), often at rates (c/kWh) above that of domestic high users (up to 800kWh). Earthlife Africa Johannesburg (ELA Jhb) made a submission to NERSA in this regard in Nov. 2007.

While ELA Jhb agrees that electricity tariffs do need to rise in order for Eskom to maintain supply, build capacity and invest heavily in renewable energy generation, the proposed tariff increases for domestic low users are highly regressive under any of the proposed benchmarks (6.2%, 7.8%, 9.8%, 12%, 16.5%). Such increases would bite heavily into domestic budgets putting further constraints on other basic social goods such as water, housing, food, education and clothing. It is intolerable that the poorest users in society should be asked to bear the increased costs of a social service that they already cannot afford. The NERSA documentation on the price hikes quite clearly states that these users are indigent so it is peculiar that increases for this bracket are even being considered.

ELA Jhb made the following recommendations to NERSA:

1) That there is no increase in any domestic low tariff bracket, not even 6.2%.
2) That the socio-economic tariff (Free Basic Electricity, FBE) be altered from 50kWh per household per month, to 100kWh per person per month. This would ensure the adequate supply of electricity to poor households – which is essential for them to raise themselves from poverty.
3) That a step-block tariff be introduced so that tariffs rise according to usage (the more one uses, the more one pays per unit - kWh). The proposed increases seem to do the opposite, with the Domestic High tariffs often less than that of the Domestic Low.

Conclusion

2007 saw several key developments in the energy sector, driven primarily by concerns of growing disjuncture between supply vs. demand, but also with reference made to Peak Oil and climate change. The developments of 2007, which include massive escalation of cost estimates for large-scale electricity supply infrastructure (roughly doubling for new coal and nuclear plants), set the field of play for potentially dramatic developments in 2008. The most significant of these could be the review process promised at the Energy Summit. Could the 1998 White Paper be revised? Will the provincial summits be well prepared and empower broad stakeholder participation?

The LTMS outputs go to Cabinet in the first quarter of 2008. Any rational South African response to accelerating climate change will involve substantial changes in the energy sector. The National Energy Bill should soon be debated in parliament, as should the provisions to resume the second round of integrated energy planning and the level of ambition for scaling up the shift to sustainable energy – efficiency and renewables. Is there any prospect that the energy sector will finally be liberated from vested interests in the minerals sector?