



# South African municipalities and renewable energy - New roles and opportunities

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Electricity beyond the grid



# South African municipalities and renewable energy - New roles and opportunities

## Outline

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  - The South African Constitution – opportunity or hurdle
  - City of Cape Town v NERSA & the Minister of Energy
  - Barriers
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  - Critical steps
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## Introduction

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- South Africa's electricity sector is in the midst of a multi-faceted transformation.
- On municipal level defection of high end users of electricity
- Energy security concerns, rising electricity prices, the emergence of renewable energy technologies and the introduction of independent power producers are some of the key issues at hand.
- In light of these dynamics, municipalities are compelled to re-define their role in the electricity value chain and adapt their funding and operating models.



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## Different business models

Roles	The realm of business models
Building generation capacity	Building embedded power systems (e.g. installing rooftop solar PV systems on municipal buildings with or without feeding into the municipal grid)
	Building stand-alone power plants (e.g. building a large wind farm or solar park on municipal land used for municipal grid with possibility of on-selling to Eskom)
Procuring energy	Procuring electricity from embedded generators (e.g. procuring electricity from rooftop PV systems installed by residential customers)
	Procuring electricity from an independent power producer (e.g. procuring electricity from an independent solar park / wind farm in the vicinity of the municipality)
Playing a facilitation role	Playing a trading/aggregating role (e.g. buying electricity from local producers for on-selling to willing customers at a premium)
	Operating a storage facility (e.g. store electricity in time of excess and sell it in time of high demand)
	Providing electricity services (e.g. installing power systems, providing maintenance)



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### SA Constitution – opportunity of hurdle

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The South African Constitution empowers local government with the mandate of providing services to communities in a sustainable manner, and the promotion of social and economic development and a safe and healthy environment (Section 152 (1)). The Constitution also sets out the powers and functions of municipalities (Section 56 (1) and Schedules 4 Part B and 5 Part B), which include aspects relating to air pollution, building regulation, electricity and gas reticulation, municipal planning and street lighting

View of National Treasury – in the absence of an explicit mandate municipalities are not authorised to engage in RE



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### CoCT v NERSA & the Minister of Energy (1)

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- CoCT wants to buy 150MW solar and 250MW wind from independent power producers (IPPs)
- CoCT had asked the Minister to issue a determination that would enable it to buy electricity directly from IPPs
- NERSA is of the view that because it is bound by Ministerial determinations, it cannot licence an IPP without a valid determination.
- CoCT seeking an order to declare that a determination in terms of s34 of the Electricity Regulation Act (ERA) is not required for an IPP seeking to create new generation capacity for the sale of electricity to CoCT;
- alternatively declare, if the court finds that a s34 determination is required, that s34 of the ERA is unconstitutional and invalid as it interferes with CoCT's constitutional right and duty to provide electricity to its inhabitants in a manner it deems best; and
- if a s34 determination is required and the section is not declared unconstitutional/invalid by the court – order the Minister of Energy to determine CoCT's application for a s34 determination within one month.



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### CoCT v NERSA & the Minister of Energy (2)

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- Cot has a constitutional and statutory duty to supply basic services including electricity to its inhabitants and to determine how best to discharge its constitutional duty without interference from others;
- In their supporting affidavit the COCT argues that it intends to offer its citizens “the best possible energy solution and service”.
- It believes it can do so by purchasing renewable energy (RE) from IPPs, [but similarly also build their own] which will – according to CoCT - realise a whole list of benefits – listed in the affidavit
- If successful – this decision would allow local municipalities to procure electricity directly from IPPs, enabling them to sidestep Eskom, without the need for a Ministerial determination
- At the same time it will widen the ambit of all the activities that municipalities can engage in



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### Key Findings

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- All business models face a number of financial and/or regulatory hazards
  - Installation of embedded power systems on municipal building appears to be the easiest business model
  - Regulatory framework still constitutes an explicit hurdle for procurement from IPPs, trading and providing electricity services
  - Financial regulations particularly pose problems to the implementation of business models such as building stand-alone power plants and procuring from embedded generators.
  - At the socio-political level, the resistance to municipalities developing new roles and functions, or even extending their reach on existing prerogatives, is relatively high
  - business models revolving around small-scale systems have some support, but significant resistance by national entities to business models based on large-scale power plants
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### Recommendations

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- Better understand the implications as well as the operationalisation channels of each business models
- Unpack business models with the aim of clarifying regulatory frameworks
- Renovate funding models of South Africa's municipalities
- Give greater consideration to the role of municipalities in energy planning
- Develop new skills and competences
- Experimenting, building business cases and developing projects and programmes
- Experimenting and 'learning by doing': will enable municipalities to gauge the costs and benefits of each business model as well as facilitate engagement with national authorities on any policy and regulatory barriers
- Taking the lead in shaping and defining the future of the country's electricity sector, and in turn transforming municipalities' role in the electricity sector and achieving energy sustainability



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## Way Forward

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- Engagement with Constitution
- Review Municipal Funding Model
- Address Procurement Practices
- Deregulated Energy Markets



# Thank you

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