

# Energy & Power

## ALERT

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#### Virtual wheeling agreements: A new frontier in renewable energy supply solutions

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## Virtual wheeling agreements: A new frontier in renewable energy supply solutions

It is trite that the amendment of the Electricity Regulation Act 4 of 2006 (ERA) in August 2021 was the first fundamental step to “unlocking” the private electricity generation and procurement market in South Africa. In addition to dispensing with the need for a license for projects with a generation capacity below 100MW (this threshold has since been deleted in its entirety), Schedule II of the ERA was amended to allow for the wheeling of electricity to multiple customers.

Wheeling offers a solution whereby independent power producers (IPPs) can generate electricity in one location and utilise the existing transmission and / or distribution networks to supply third-party offtakers situated in different locations to the generation plant.

With wheeling as a possibility, the aforementioned amendment to the ERA resulted in the launch of numerous private procurement processes, especially in the commercial and industrial (C&I) space, whereby private offtakers sought to procure renewable energy directly from IPPs under corporate power purchase agreements (PPAs).

### Limitations to traditional wheeling

While it remains a valuable and indispensable mechanism for developing the private energy market,

certain regulatory and practical factors do limit the ability of “traditional wheeling” to cater for nuanced energy supply solutions, including:

- Where the offtaker has a municipal point of connection to the grid, wheeling is only possible insofar as the municipality has adopted a formal wheeling framework, inclusive of a tariff and billing policy. In July 2023, the South African Local Government Association (SALGA) released a report on the status of wheeling in South African municipalities (SALGA Report), which confirmed that there are “only a few operational municipal wheeling systems in place”. To ensure regulatory alignment, various municipalities are holding off on developing wheeling policies as they await the formulation and publication of a national wheeling framework by the National Energy Crisis Committee of Ministers.



## Virtual wheeling agreements: A new frontier in renewable energy supply solutions

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- An offtaker is required to amend its electricity supply agreement (ESA) with, depending on its point of connection, Eskom or the relevant municipality. This is to ensure wheeling credits are reflected on the offtaker's electricity bill.
- Where an Eskom-connected generator seeks to wheel power to an offtaker that has a municipal grid connection, it will require an amendment to the ESA between Eskom and the municipality to ensure the municipality's electricity bill caters for wheeling credits. Generally, Eskom requires a security deposit prior to signing an amended or new ESA. While Eskom did announce that it will waive this requirement for municipalities in good financial standing, many municipalities will not be able to pass this test.

The above factors are particularly problematic in instances where a customer has multiple offtake sites in various locations, each with a different point of connection to the transmission

and distribution network. Examples include the real estate sector, where a property company owns multiple office buildings across the country; or a large retailer with stores, warehouses and offices in different locations.

As a result, wheeling solutions have, to the exclusion of a large portion of the private market, thus far mostly been limited to larger high-voltage C&I customers that are connected to the Eskom grid.

### Virtual wheeling as a solution and opportunity

Recognising what essentially became an insurmountable hurdle, Eskom developed its virtual wheeling platform (VWP) as a concept product to circumvent the issues outlined above. The VWP is a digital mechanism used to aggregate Time-of-Use (TOU) generation and consumption data, which ultimately allows Eskom to refund a single buyer, while individual offtake sites or customers continue to consume electricity and be billed as before by Eskom or their relevant municipality.

To better explain, consider a scenario where the buyer is a corporate entity with multiple offtake sites in different municipal jurisdictions. In this instance, virtual wheeling contemplates the following:

- The buyer enters into:
  - a virtual wheeling agreement with Eskom;
  - a VWP agreement with an Eskom-certified VWP vendor – it is understood that traders will likely fulfil this role; and
  - a PPA with one or more IPPs.
- Eskom-approved smart meters are installed at both the generation and offtake sites to record generation and consumption TOU data.
- The VWP vendor aggregates the TOU data and feeds it into the Eskom VWP.

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- Eskom pays the buyer a wheeled energy refund, at Eskom-determined wholesale energy pricing system TOU rates, for the energy generated by the IPPs and exported to the grid.
- The individual offtake sites or customers continue to be billed as usual by their relevant municipalities.

The benefit of the above is that no amendments to existing ESAs are required, with no impediments occasioned by municipalities' lack of wheeling frameworks. That being said, Eskom will not process the refund where the offtaker or municipality's Eskom account is not in good standing.

This is but a single example, with the VWP also providing traders with the opportunity to purchase and aggregate energy from one or more generates, to allocate to multiple offtakers.

### Unlocking the energy market

With the first virtual wheeling agreement recently concluded with Eskom, it is evident that the VWP is progressing past concept stage.

Eskom's explanatory presentation on virtual wheeling confirms that "*Virtual wheeling and the accompanying wheeled energy refund mechanism – amongst other interventions – will stimulate a significant influx of new buyers which in turn will increase IPP investment and market activity.*"

In addition to adding more capacity to the grid by enabling a broader range of consumers to access renewable energy supply, the mechanism reinforces the importance of the role that traders are and will continue to play in the fast-evolving South African electricity market.

**Alecia Pienaar**



## OUR TEAM

For more information about our Energy sector and services in South Africa and Kenya, please contact:



### Megan Rodgers

Sector Head: Oil & Gas  
Director: Corporate & Commercial  
T +27 (0)21 481 6429  
E [megan.rodgers@cdhlegal.com](mailto:megan.rodgers@cdhlegal.com)



### Timothy Baker

Director:  
Dispute Resolution  
T +27 (0)21 481 6308  
E [timothy.baker@cdhlegal.com](mailto:timothy.baker@cdhlegal.com)



### Tessa Brewis

Director:  
Corporate & Commercial  
T +27 (0)21 481 6324  
E [tessa.brewis@cdhlegal.com](mailto:tessa.brewis@cdhlegal.com)



### Jerome Brink

Director:  
Tax & Exchange Control  
T +27 (0)11 562 1484  
E [jerome.brink@cdhlegal.com](mailto:jerome.brink@cdhlegal.com)



### Jackwell Feris

Sector Head:  
Industrials, Manufacturing & Trade  
Director: Dispute Resolution  
T +27 (0)11 562 1825  
E [jackwell.feris@cdhlegal.com](mailto:jackwell.feris@cdhlegal.com)



### Peter Hessling

Director:  
Corporate & Commercial  
T +27 (0)21 405 6009  
E [peter.hessling@cdhlegal.com](mailto:peter.hessling@cdhlegal.com)



### Anita Moolman

Director:  
Corporate & Commercial  
T +27 (0)21 405 6122  
E [anita.moolman@cdhlegal.com](mailto:anita.moolman@cdhlegal.com)



### Mashudu Mphafudi

Practice Head & Director:  
Finance & Banking  
T +27 (0)11 562 1093  
E [mashudu.mphafudi@cdhlegal.com](mailto:mashudu.mphafudi@cdhlegal.com)



### David Thompson

Deputy Practice Head & Director:  
Corporate & Commercial  
T +27 (0)21 481 6335  
E [david.thompson@cdhlegal.com](mailto:david.thompson@cdhlegal.com)



### Margo-Ann Werner

Director:  
Environmental Law  
T +27 (0)11 562 1560  
E [margo-ann.werner@cdhlegal.com](mailto:margo-ann.werner@cdhlegal.com)



### Deon Wilken

Director:  
Finance & Banking  
T +27 (0)11 562 1096  
E [deon.wilken@cdhlegal.com](mailto:deon.wilken@cdhlegal.com)



### Lauriene Maingi

Associate | Kenya  
T +254 731 086 649  
+254 204 409 918  
+254 710 560 114  
E [lauriene.maingi@cdhlegal.com](mailto:lauriene.maingi@cdhlegal.com)



### Alecia Pienaar

Counsel:  
Environmental Law  
T +27 (0)82 863 6279  
E [alecia.pienaar@cdhlegal.com](mailto:alecia.pienaar@cdhlegal.com)

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**JOHANNESBURG**

1 Protea Place, Sandton, Johannesburg, 2196. Private Bag X40, Benmore, 2010, South Africa.

Dx 154 Randburg and Dx 42 Johannesburg.

T +27 (0)11 562 1000 F +27 (0)11 562 1111 E [jhb@cdhlegal.com](mailto:jhb@cdhlegal.com)

**CAPE TOWN**

11 Buitengracht Street, Cape Town, 8001. PO Box 695, Cape Town, 8000, South Africa. Dx 5 Cape Town.

T +27 (0)21 481 6300 F +27 (0)21 481 6388 E [ctn@cdhlegal.com](mailto:ctn@cdhlegal.com)

**NAIROBI**

Merchant Square, 3<sup>rd</sup> floor, Block D, Riverside Drive, Nairobi, Kenya. P.O. Box 22602-00505, Nairobi, Kenya.

T +254 731 086 649 | +254 204 409 918 | +254 710 560 114

E [cdhkenya@cdhlegal.com](mailto:cdhkenya@cdhlegal.com)

**STELLENBOSCH**

14 Louw Street, Stellenbosch Central, Stellenbosch, 7600.

T +27 (0)21 481 6400 E [cdhstellenbosch@cdhlegal.com](mailto:cdhstellenbosch@cdhlegal.com)

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