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Projects & Energy ALERT

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The GCCA is aimed at guiding project developers or independent power producers (IPPs) on where to develop new generation projects based on generation connection capacity of the grid. Per the GCCA, "generation connection capacity" refers to "the amount of generation that can be accommodated on the transmission system at any given time and at a given location without adversely affecting grid reliability and without requiring significant infrastructure upgrades".

Lack of sufficient grid capacity has been cited as the main constraint to bringing more new generation projects online at the scale and pace needed to mitigate the current significant gap between energy supply and demand in South Africa. It is a

problem that has already impacted the procurement of renewable energy, with only 1,000 MW out of a total of 4.2 GW awarded under the last round of the public Renewable Energy IPP Procurement Programme (REIPPPP). Despite deregulation of the legal framework to allow for private generation and offtake through bilateral wheeling arrangements, there are concerns over the limited options available for commercial and industrial offtakers looking to invest in renewable energy supply and secure offtake as soon as possible. This is especially considering that a large portion of shovel-ready projects that are at a more advanced stage of development are generally located in areas where they are unable to connect to the national grid.



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GCCA

Below is a summary of the available generation connection capacity as set out and extracted from the GCCA, which includes all REIPPPP preferred bidders announced up to Round 6, as well as all of the private wheeling projects that have been issued with or have applied for and are awaiting budget quotations (BQs).

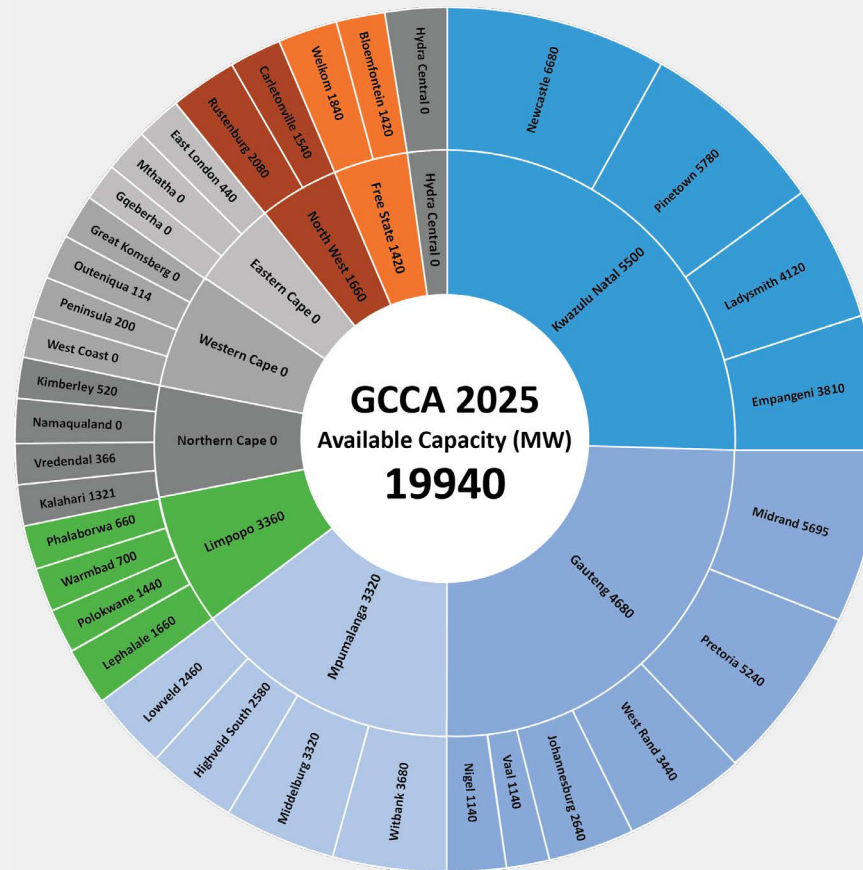


Figure 1: Summary of the GCCA 2025 results



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As industry is aware, capacity in the Cape provinces has been depleted, with the GCCA reflecting that there is also no more capacity available in the Hydra Central cluster. As per the GCCA, *"These areas remain in high demand due to their abundant energy resources for renewable generation."*

According to the GCCA, the capacity deficit can be attributed to the increased renewable energy uptake exceeding the planned allocation provided for in the Integrated Resource Plan 2019 (IRP 2019) and Transmission Development Plan (TDP). The IRP 2019 and TDP respectively foresaw 15 GW or 13.8 GW of renewable energy being procured by 2025, while the GCCA indicates that renewable energy penetration for 2025 already stands at 18 GW.

A total of 19.94GW of grid capacity still remains across the KwaZulu-Natal, Gauteng, Limpopo, Mpumalanga, North West and Free State provinces,

but they are not viewed as favorably from a renewable energy resource availability perspective. That being said, there are indications that IPPs are investing in developing projects in areas with remaining capacity.

The GCCA further provides details on the total committed MWs for IPP generation in each province, setting out the details of the relevant projects, including technology, capacity, programme and status. Where the applicable programme is indicated as "BQ", it reflects that the project forms part of a private, bilateral wheeling solution.

Interim plans to open grid capacity

Recent estimates indicate that R235 billion is required to upgrade the national grid, including the construction of 14,000km of new transmission lines and installation of additional transformer capacity in constrained areas. The situation is further aggravated by the long

lead timelines generally associated with transmission development and construction, and Eskom's inability to presently secure financing for the upgrades. According to the GCCA, transmission infrastructure upgrades will only be commissioned from 2027 onwards. As such, the GCCA looks to interim or alternative options to ensure that new generation projects are able to connect in the interim.

Apart from recommending that developers focus on areas with remaining grid capacity, the GCCA confirms that curtailment studies have been undertaken to implement planned curtailment as a means of providing an *"alternative option"* for connecting new generation projects in areas with no transmission network availability. No further details are provided in the GCCA, save that the curtailment has been accepted from a governance perspective and now needs to undergo regulatory approval processes. It is estimated that results from the study will only be available in the next release of the GCCA.

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Although not reflected in the GCCA, industry engagements indicate that curtailment will only serve to mitigate grid constraints in relation to wind projects, with co-location of battery storage identified as the solution in respect of solar PV plants. It is understood that these mitigation strategies are undergoing further studies, to best understand how to manage the export of power to the grid on a more granular level with reference to demand during specific Time-of-Use periods. Feedback at the Green Energy Summit in early October 2023 indicated that less than 10% curtailment could result in 4 GW of generation capacity becoming available in the Cape provinces.

It is, however, unclear how these strategies will be implemented, especially in relation to wind projects that are already operative or where power purchase agreements have otherwise been signed without catering for planned curtailment. It is understood that Eskom will continue to engage industry on the matter, with the strategy ultimately requiring approval from the National Energy Regulator of South Africa.

[Alecia Pienaar](#)



Update on Interim Grid Capacity Allocation Rules: Eskom clarifies guarantee requirements

On 3 November 2023, Eskom hosted a presentation to update industry on the implementation of the Interim Grid Capacity Allocation Rules (IGCAR). [As discussed in our previous alert](#), the IGCAR were first released in June 2023, shifting the grid capacity allocation process from a 'first come, first served' approach to a new regime based on a 'first-ready, first served' principle.

While certain amendments were introduced in September 2023 to relax the IGCAR's initial project readiness evaluation criteria, changes to the requirement to furnish a grid capacity allocation guarantee (guarantee) by an Eskom approved financial institution remained subject to further negotiation at the time.

The focus of the presentation was on addressing the status of pending grid connection applications and on providing further clarifications on the IGCAR evaluation criteria, including confirmation of the requirement for a guarantee.

Status of pending grid connection application

The presentation served to provide insight into the progress made in processing the backlog of grid connection applications in terms of the IGCAR. Eskom confirmed that all pending budget quote (BQ) processes in the three Cape provinces have been attended to – of 42 projects

totalling 5.1GW, 32 were found to be IGCAR compliant, with 27 collectively allocated 3.2 GW of grid capacity. The remaining IGCAR compliant projects in the Cape provinces will be issued with cost estimate letters or otherwise allocated grid capacity as and when it becomes available. The relevant Eskom Grid Access Units have since turned to assess pending BQ applications made in the remaining areas falling outside the Cape provinces. Thus far, only 8 of the 44 projects have been found to be IGCAR compliant, with additional information requested from the remainder of the projects.

Evaluation criteria clarifications

Based on the applications assessed to date, Eskom issued the below clarifications on some of the IGCAR evaluation criteria, which have been extracted from the presentation:

- Requirement: Environmental authorisation and water use licences (WULs) in respect of the generation facility.

- Clarification: *"Applicants are required to submit WULs in respect of the generation facility....Eskom may accept proof of submission of application to relevant authorities (e.g. Department of Water and Sanitation) as commensurate compliance taking into account specific details and circumstances of the project including unreasonable delays in processing such applications by the relevant authorities."*
- Requirement: Conditional approval issued by the South African Civil Aviation Authority (CAA) in terms of the Civil Aviation Regulations.
- Clarification: *"This requirement is in respect of the generation facility. CAA conditional approval is required OR alternatively an environmental impact assessment report indicating no impact on aviation OR alternatively a glint and glare impact assessment"*

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report indicating no impact. CAA has appointed the Air Traffic Navigation Services to conduct/issue obstacle evaluation assessments/approvals."

- Requirement: Land rights (ownership and lease) to construct the generation facility.
 - Clarification: "All applications are required to submit lease agreements or option-to-lease agreements or proof of ownership rights to the land. Applicants are further required to complete and submit a Land Authorisation Form detailing each property impacted by the [independent power producer] (IPP) project and indication of lease/option to lease agreement per portion of land. Applications with lease agreements/option to lease agreements are currently exempt from obtaining approvals in terms of the Sub-division of Agricultural Land Act [70 of 1970]."

- Requirement: Confirmation of appointment of design consultants accepted by Eskom (self-build).
 - Clarification: "Applicants required to submit CVs and profiles of appointed consultants to demonstrate relevant experience, competence/skill and professional registration."
- Requirement: Measured data for primary energy resource, as applicable (minimum two years for wind and one year for solar).
 - Clarification: "Hourly production data required for both solar and wind. Satellite data acceptable for solar irradiance data. Minimum two-year production data required for wind with at least one year being on-site measurement data, alternatively, an independent engineer's report with one year of on-site together and two years production data with wind speed and hub height data."

- Requirement: Grid Capacity Allocation Guarantee.
 - Clarification: "Guarantee to be submitted by all applicants as per the IGCAR."

Grid Capacity Allocation Guarantee requirements

All generators who wish to be grid-tied to the transmission or distribution grid with installed capacity greater than 1 MW are required to provide Eskom with a guarantee.

According to Eskom, the need for a guarantee is linked to the economic costs suffered where a project has received grid capacity allocation, but then fails to connect in accordance with agreed timelines. These costs stem from both:

- (i) the "costs of loadshedding", which is an economic loss attributable to unavailability of a generation facility with reference to the period of grid capacity allocation and connection; and

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- (ii) the “energy displacement component” of renewable energy projects, which generally have lower tariffs that ultimately cuts down Eskom’s energy costs.

Taking this into account, the “reasonable cost” to be covered by the guarantee has been agreed at R200,000 per MW per project.

The following requirements and conditions will apply in respect of the guarantee:

- it is to be issued by a financial institution and in a form approved by Eskom;
- in terms of timing, it is required to be submitted following request for a BQ and confirmation that the project is “shovel-ready” as contemplated under the IGCAR;
- the guarantee must cover the entire BQ period (development, issue and validity), as well as the project execution phase up until grid connection;

- draw down on the guarantee will occur upon revocation of grid capacity allocation, which may, in turn, result from failure to comply with prescribed timelines or BQ conditions; and
- the amount of the draw down will be calculated with reference to date from which grid capacity was reserved.

Eskom clarified that the guarantee was distinct from and in addition to any grid construction works guarantee to be provided.

Concerns have been raised over the risk of developers or IPPs being liable in terms of the guarantee where the scope of works significantly changes between the cost estimate letter and BQ stage, with the developer or IPP unable or unwilling to proceed with the revised scope. While Eskom indicated that the scope of works will not be changed without a customer’s input and agreement to

proceed, liability could still accrue depending on when grid capacity is deemed to have been reserved in such application.

Conclusion

In reiterating its intention to continue to implement the IGCAR, Eskom also confirmed that the IGCAR have now been finalised and are currently subject to a “codification” process. To secure grid capacity allocation, developers and IPPs are therefore encouraged to be fully acquainted with the IGCAR and timeously seek advice on their requirements to ensure compliant submissions. This is especially considering that revocation of grid capacity allocation will result in such capacity falling back into the capacity “pool”, to be reallocated to other applicants in accordance with the IGCAR.

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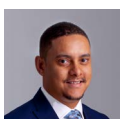
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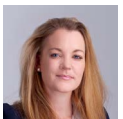
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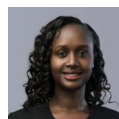
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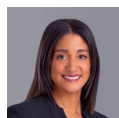
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BBBEE STATUS: LEVEL ONE CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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