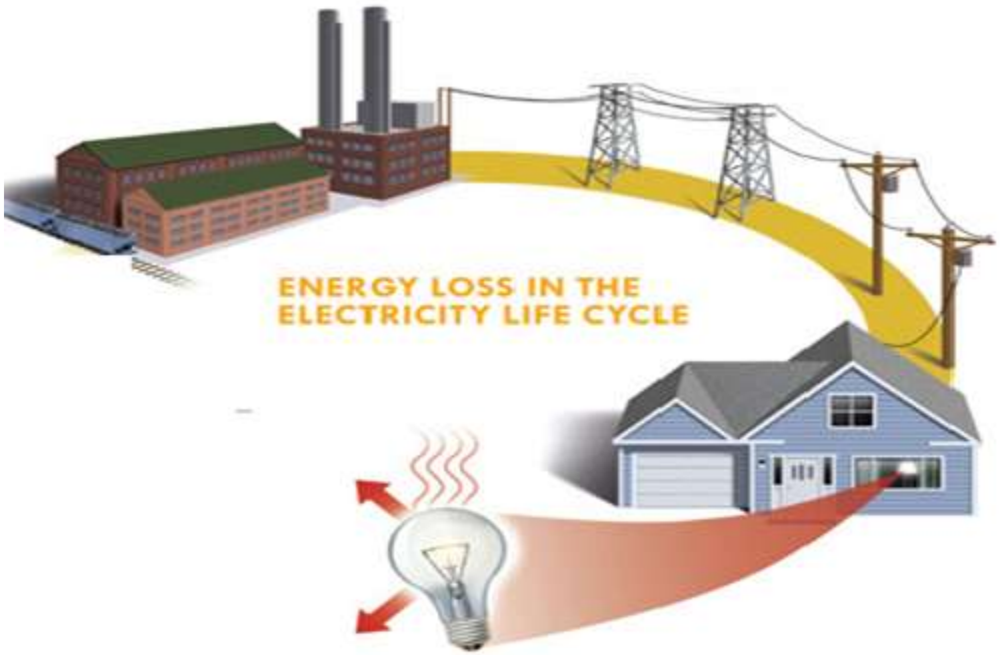
REGULATORY RULES ON NETWORK CHARGES FOR THIRD PARTY TRANSPORTATION OF ENERGY



http://www.galvinpower.org/sites/default/files/Energy_loss.jpg

Feedback to SEA-SALGA-SACN URBAN ENERGY NETWORK

BACKGROUND REGULATORY RULES : 3RD PARTY WHEELING

- Nersa released rules regarding 3rd party transportation of energy in March 2012.
- 21 page document that provided guidelines in various aspects (14) of wheeling :

- Legal Basis
- Objectives
- Geographic Differentiation
- Rural and Urban Reticulation Networks

- General Use-of-System Charges
- Network Charges
- Reliability Service Charge
- Service and Administration Charge
- Losses Charge

- Connection Charges
- Wheeling Arrangement
- Bypass Network
- Subsidy Contributions
- Reconciliation of Accounts

- In addition to the above, more information was required and not all parties / stakeholders agreed with the rules as it was presented. As a result, NERSA started a process to review the document ……………………….

BACKGROUND REGULATORY RULES : 3RD PARTY WHEELING

- On 05 December 2014, NERSA and the following stakeholders met to discuss the rules and find a way forward in terms of enhancing the document and making it more workable prior to entering the public participation process.

AMEU

ESKOM

EIUG

SAIPPA

SAREC

- As discussed in the workshop, it was agreed that there is a need for the team to meet over two days (19TH & 20TH March) to identify issues/areas of concern, make comments and recommendations on the attached document before small working groups are formed.

- Out of the two-day session, it will then be decided what Task Teams will be established to address the outstanding issues.
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- Written reports on issues/areas of concern and recommendations were due to be submitted by 27 February 2015 at 15h00.
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- A consolidated report together with the agenda was shared with the team on 5 March 2015 in preparation for this two-day workshop.

BACKGROUND REGULATORY RULES : 3RD PARTY WHEELING

- The team did meet @ Birchwood Hotel and each party was allowed time to present their views / suggestions regarding the document.
- It was a tough 2 day session as views were conflicting and debates were interesting to say the least !!!
- I was representing ETE and AMEU. Ekhureleni Metro joined the meeting for a short while in supporting the AMEU views.
- The AMEU does support regulatory rules for the transportation of energy however did not agree with all the proposals as depicted in the document.
- The context of the meeting was to try and make the introduction of energy to the grid as simple as possible considering that our country in a dire energy crisis.
- NERSA was targeting to have a draft document available for public comment by July 2015.
- Date of next meeting and future steps to be communicated by NERSA.
- There is limited time for a clauses by clause analysis of the rules today however I would like to point out a few important principles that is contained within the document that will impact Municipalities.

BACKGROUND REGULATORY RULES : 3RD PARTY WHEELING

1. MANDATE FOR ELECTRICITY SUPPLY WITHIN MUNICIPALITIES

Nersa Clause:

6.7 Any load customer shall be free to go into bilateral arrangements with any third-party generator, i.e. non-Municipal and non-Eskom generator.

- Comment: Rules must be clear in terms of licensing of generator and rules must be clear in terms of allocating responsibilities between the relevant parties during wheeling, who will bill, who will meter, where metering takes place, how account will be off-set etc.

- By the introduction of this clause, it will be wise to question who holds the mandate to supply electricity within a municipal boundary. Should this go ahead, Municipalities are at risk of financial losses should they not amend their business models and move to cost reflective tariffs.

- The concept of allowing bi lateral wheeling questions the municipal's LEGAL authority in terms of being a service provided for the provision of an electricity service. A discussion must occur / legal opinion sought, regarding who has the mandate to supply electricity within a municipal boundary…………

BACKGROUND REGULATORY RULES : 3RD PARTY WHEELING

2. ALL GENERATORS MUST PAY FOR GRID ACCESS

Nersa Clause:

7.11 Generators connected at Medium Voltage level (11kV to 33kV) shall be assumed to be embedded in demand dominated nodes and shall be exempted from paying DUOS network charges.

- Comment: DISAGREE, all users of the network must contribute to the use of the network. The distributor's business model is around providing grid access irrespective of the direction of power flow.

- Failure to incorporate a charge for generators will not encourage the distributor to welcome local generators. No incentive to encourage local generators !!!

- If the grid was not there, the generator cannot generate. The generator cannot free ride on the network and the distributor is expected to sacrifice the network for the benefit of the generator.

- This clause was heavily debated, no consensus was reached in the meeting …….

3. COSTS FOR UPSTREAM REINFORCEMENTS

Nersa Clause:

11.3 Upstream reinforcements costs shall not be raised from wheeling generators but an early termination guarantee for shared assets, i.e. upstream reinforcements, shall be raised.

- Comment: Disagree. Costs borne in this regard must be carried by the generator. Why must the utility carry this cost / burden of financing?
- This effectively means that the municipality will be responsible for strengthening the network where a generator is introduced.
- The practicality of such an arrangements raises various questions:
  - Can the municipality afford such investments ?
  - These costs of reinforcement will be carried by customers within the city. Fair or Unfair ?
  - Excess costs will push up tariffs ?

4. UOS NETWORK COSTS LINKED TO CPI

Nersa Clause:

6.11 The UOS charge for generators shall be fixed at wheeling agreement signature date and shall be indexed to the Consumer Price Index (CPI) annually at the end of March, starting the year following the signature date and each year thereafter.

- Comment: UOS charges will vary depending on the level of cost experienced by the distributor.
- Costs are pooled as per the voltage level and not independently for the generator. Increase of CPI and network costs don't necessarily trend each other.
- This clause is not supported and increases must be indexed in line with the actual costs of maintaining the grid.
- The drawback of not linking to CPI is that the contract reduces bankability as there is uncertainty in increases !!!

BACKGROUND REGULATORY RULES : 3RD PARTY WHEELING

5. PENALTIES FOR MUNICIPALITIES

Nersa Clause:

12.8 If a network operator's performance drops below the 98% and 95% availability limits for Transmission and Distribution Systems, respectively, then the network operators should compensate the generator for energy that could have been exported into the system at WEPS rate.

- Comment: Disagree, this is unfair and should only be enforced where the distributor has been negligent or failed to provide maintenance etc., leading to network unavailability.
- Should this principle be supported for generators then it must also be in place for normal customers including large industrials. This will be a major problem to manage considering the huge amount of theft and issues that occur outside of the control of municipalities.
- *The current rules allow for generators to be exempt from paying network charges and must be compensated for network unavailability – NO BENEFIT TO MUNICIPALITIES !!!*