

OPERATION VULINDLELA

Supporting
the Implementation
of Priority Structural Reforms



PROGRESS UPDATE

2022/23 | Q2 REPORT



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



THE PRESIDENCY
REPUBLIC OF SOUTH AFRICA



**STAY
SAFE**

VACCINATE TO SAVE SOUTH AFRICA

INTRODUCTION

Operation Vulindlela is driving a far-reaching economic reform agenda for South Africa to shift our economic growth trajectory and enable investment and job creation.

Operation Vulindlela was established in October 2020 with five key objectives:

1. Supply of electricity stabilised
2. Reduced cost and improved quality of digital communications
3. Sustainable water supply to meet demand
4. Competitive and efficient freight transport
5. A visa regime that attracts skills and grows tourism

This report provides a summary of progress in the implementation of priority structural reforms for the second quarter of 2022. Additional information on each reform area is available at <https://www.stateofthenation.gov.za/operation-vulindlela>.

OVERALL STATUS OF REFORMS

| # | ACTIONS | STATUS |
|----|---|--------|
| 1 | Raise licensing threshold for embedded generation | |
| 2 | Implement emergency procurement of 2 000 MW | |
| 3 | Procure new generation capacity in terms of IRP 2019 | |
| 4 | Enable municipalities to procure power from independent power producers | |
| 5 | Restructuring of Eskom | |
| 6 | Improve Energy Availability Factor (EAF) to over 70% | |
| 7 | Address institutional inefficiencies in municipal electricity distribution | |
| 8 | Complete spectrum auction | |
| 9 | Complete migration from analogue to digital signal | |
| 10 | Finalise Rapid Deployment Policy and Policy Direction | |
| 11 | Streamline process for wayleave approvals | |
| 12 | Improve water-use license application process | |
| 13 | Revive the Blue Drop, Green Drop and No Drop water quality monitoring system | |
| 14 | Establish an independent economic regulator for water | |
| 15 | Finalise the revised raw water pricing strategy | |
| 16 | Establish a National Water Resource Infrastructure Agency | |
| 17 | Address institutional inefficiencies in municipal water distribution | |
| 18 | Corporatise the Transnet National Ports Authority (TNPA) | |
| 19 | Improve efficiency of ports | |
| 20 | Establish Transport Economic Regulator through Economic Regulation of Transport Bill | |
| 21 | Finalise the White Paper on National Rail Policy | |
| 22 | Implement third-party access to freight rail network | |
| 23 | Publish revised Critical Skills List | |
| 24 | Review Policy Framework and processes for work visas | |
| 25 | Expand visa waivers and explore visa recognition system | |
| 26 | Implement e-Visa system in fourteen countries, including China, India, Kenya, Nigeria | |

| RAG STATUS | | | |
|------------------|---------------------------------------|---|-----------------------------|
| REFORM COMPLETED | CRITICAL CHALLENGES IN IMPLEMENTATION | SOME CHALLENGES OR DELAYS IN IMPLEMENTATION | REFORM ON TRACK OR UNDERWAY |

HIGHLIGHTS OF OPERATION VULINDLELA TO DATE

KEY ACHIEVEMENTS SINCE ESTABLISHMENT

- ✓ Spectrum auction concluded, with settlement between ICASA and Telkom bringing finality to the auction outcome
- ✓ Bid Window 6 of the renewable energy programme opened for wind and solar power, with preferred bidders from Bid Window 5 expected to reach financial close soon
- ✓ Electricity Regulation Amendment Bill published to enable a competitive electricity market, alongside unbundling of Eskom and establishment of an independent transmission company
- ✓ White Paper on National Rail Policy approved by Cabinet, providing a clear policy direction on third-party access, devolution of passenger rail and other key issues
- ✓ Request for Proposal (RFP) issued to initiate third-party access to the freight rail network
- ✓ Green Drop report published for the first time since 2014 to ensure better monitoring of water and wastewater treatment quality, enabling stronger interventions in failing municipalities
- ✓ Revised Critical Skills List published for the first time since 2014 to reflect current skills shortages in the economy
- ✓ Nersa has registered over 500MW of private renewable power generation projects to date, with a pipeline of over 6000 MW of projects at various stages of development

KEY ACHIEVEMENTS IN Q2 2022

- ✓ National Energy Crisis Committee (NECOM) established to oversee the implementation of additional measures to address the electricity shortage and end load shedding
- ✓ Comprehensive review of the work visa system completed, with detailed recommendations to attract skilled immigration and investment
- ✓ Backlog of water use licenses cleared
- ✓ National Water Resources Infrastructure Agency Bill approval by Cabinet for public consultation
- ✓ Revised Raw Water Pricing Strategy developed to provide policy certainty in the water sector

PROGRESS UPDATE: ELECTRICITY

Load shedding is the single biggest constraint on South Africa's economic growth. President Ramaphosa has announced a set of additional actions to address the immediate crisis as well as to end load shedding and achieve long-term energy security. The implementation of these actions will be overseen by a National Energy Crisis Committee (NECOM) comprising all relevant government departments and Eskom, with technical and coordination support from Operation Vulindlela.

The energy action plan is focused on five key priorities:

1. Fix Eskom and improve the availability of existing supply
2. Enable and accelerate private investment in generation capacity
3. Accelerate procurement of new capacity from renewables, gas, and battery storage
4. Unleash businesses and households to invest in rooftop solar
5. Fundamentally transform the electricity sector to achieve long-term energy security

Further details regarding the additional measures announced by the President can be found at <https://www.stateofthenation.gov.za/>.

KEY ACHIEVEMENTS TO DATE

- ✓ The raising of the licensing threshold from 1 MW to 100 MW has unlocked massive investment by the private sector. More than 80 projects, representing over 6000 MW of new generation capacity, are now at various stages of development. Operation Vulindlela has established a joint task team between government and industry, which meets weekly to identify those projects which are most advanced and ensure that they obtain approvals as quickly as possible.
- ✓ The first three projects from the Risk Mitigation Independent Power Producer Procurement Programme (RMIPPPP), which will provide 150 MW of solar PV and battery storage, have reached financial close and are entering construction.
- ✓ Projects from Bid Window 5 of the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) are expected to reach financial close between July and September 2022. Exemptions from local content requirements have now been provided to enable as many of these projects as possible to proceed.
- ✓ An RFP has been released for Bid Window 6 of the REIPPPP, and the capacity procured through this window will be doubled.
- ✓ National Treasury has issued a Municipal Finance Management Act (MFMA) circular to enable municipal procurement of generation capacity, following the amendment to the Regulations on New Generation Capacity.
- ✓ The Electricity Regulation Amendment Bill has been published to enable the emergence of a competitive electricity market and is being finalised for submission to Cabinet.

CURRENT FOCUS AREAS

| REFORM | OBJECTIVE | TIMEFRAME |
|---|--|--------------------------|
| Rapidly expand new generation capacity | Financial close of Bid Window 5 projects | July – September 2022 |
| | Receive proposals for Bid Window 6 | September 2022 |
| | Request proposals for battery storage | September 2022 |
| Enable private investment in energy generation | Amend Schedule 2 to remove the licensing threshold for embedded generation | September – October 2022 |
| | Table special legislation in Parliament to reduce or remove red tape | September 2022 |
| | Establish a One-Stop-Shop for all energy-related applications | August – September 2022 |
| Restructuring of Eskom | Appoint board for transmission entity | August 2022 |
| | Complete unbundling of generation and distribution entities | December 2022 |
| Electricity market reform | Introduce Electricity Regulation Amendment Bill to Parliament | September 2022 |

PROGRESS UPDATE: DIGITAL COMMUNICATIONS

The auction of high-demand spectrum has been finalised following a settlement reached between the Independent Communications Authority of South Africa (ICASA) and Telkom. This will enable substantial new investment in the telecommunications sector, including the rollout of 5G networks.

The switch-off of analogue transmission, which was due to be completed by the end of March 2022, was postponed by an order of the High Court to 30 June 2022. The switch-off was, however, unable to proceed as planned due to a subsequent decision of the Constitutional Court invalidating the date gazetted by the Minister of Communications and Digital Technologies for the end of dual illumination.

The Department of Communications and Digital Technologies will communicate a new date for analogue switch-off following consultations with stakeholders in the sector and will ensure that all households which are eligible for a subsidised set-top box to migrate to digital signal are able to register for the subsidy. Government remains committed to completing digital migration as quickly as possible to release low-frequency spectrum.

KEY ACHIEVEMENTS TO DATE

- ✓ Auction of high-demand spectrum completed
- ✓ Analogue switch-off completed in five provinces
- ✓ Rapid Deployment Policy and Policy Direction finalised for approval by Cabinet

CURRENT FOCUS AREAS

| REFORM | OBJECTIVE | TIMEFRAME |
|--|--|--|
| Migrate remaining households to digital signal and switch off analogue transmission | Provide a subsidised set-top box to any indigent households which have not yet migrated and complete switch-off in remaining provinces | TBD (based on stakeholder consultations) |
| Streamline wayleave approvals | Standard draft by-law for wayleave approvals adopted for rollout in municipalities | October 2022 |

PROGRESS UPDATE: TRANSPORT

The freight transport system is undergoing a fundamental transformation. The Economic Regulation of Transport Bill is expected to be voted on by the National Assembly in its third term and, if passed, will provide for open and non-discriminatory third-party access to the rail network as well as the establishment of a Transport Economic Regulator. In the interim, proposals are due from private operators in August 2022 for 16 slots made available by Transnet on the Durban-City Deep and Pretoria-East London lines.

A Request for Proposals has been prepared by Transnet for private partnerships in container terminals at the Ports of Durban and Ngqura. The RFP is expected to be released on 8 August 2022, for partnerships to be in place by January 2023. This is a major new initiative that will enable private investment in and management of poorly performing container terminals, with significant benefits for the economy.

The Department of Transport is developing a devolution strategy for the future of urban rail in South Africa in alignment with the Integrated Urban Development Framework, which will provide for the devolution of passenger rail to local government in line with the recently gazetted White Paper on National Rail Policy.

KEY ACHIEVEMENTS TO DATE

- ✓ National Ports Authority established as an independent subsidiary of Transnet
- ✓ Request for Information published for private sector participation at the Ports of Durban and Ngqura
- ✓ Accounting separation of Transnet Freight Rail completed to enable third-party access to the rail network
- ✓ RFP released for available slots on the Durban-City Deep and Pretoria-East London lines
- ✓ White Paper on National Rail Policy finalised and approved by Cabinet

CURRENT FOCUS AREAS

| REFORM | OBJECTIVE | TIMEFRAME |
|---|--|------------------------|
| Enable third-party access to the freight rail network | Proposals received from private rail operators for available slots | August 2022 |
| Introduce private sector participation in container port terminals | Release RFPs for private sector partnerships in the Ports of Durban and Ngqura | August 2022 |
| Establish a single Transport Economic Regulator | Pass the Economic Regulation of Transport Bill and establish the new regulator | Bill before Parliament |

PROGRESS UPDATE: WATER

Reforms in the water sector aim to strengthen governance and increase investment in infrastructure to ensure a sustainable supply of quality water.

As a result of the turnaround plan for water use licenses supported by Operation Vulindlela, the backlog of water use license applications has been cleared as of 30 June 2022. The Department of Water and Sanitation (DWS) is on track to meet its target of processing 80% of all applications within 90 days.

The National Water Resources Infrastructure Agency Bill has been finalised and will shortly be released for a 90-day public consultation. The revised Raw Water Pricing Strategy will be gazetted in the first week of August 2022.

The Water Partnerships Office is now operational through an agreement between the DWS and the Development Bank of Southern Africa (DBSA). This will enable greater private sector participation in the development and maintenance of water infrastructure while the agency is established.

Following the revival of the Blue Drop, Green Drop and No Drop water quality monitoring system through Operation Vulindlela, the department is putting in place a range of measures to improve the quality of water services at municipal level. This includes creating a public dashboard showing the extent of compliance with national norms and standards for all Water Service Authorities; developing more comprehensive norms and standards for water and sanitation services in terms of the Water Services Act; and providing hands-on support directly to municipalities that fail to meet those norms and standards.

KEY ACHIEVEMENTS TO DATE

- ✓ Reinstated the Blue Drop, Green Drop and No Drop water quality monitoring system, with the first report published
- ✓ Implemented a turnaround plan to improve processing times for water use license applications and cleared backlog of license applications
- ✓ Finalised the NWRIA Bill to establish a dedicated agency to improve the management of bulk water resources
- ✓ Finalised the revised Raw Water Pricing Strategy to provide certainty and enable cost recovery to improve water infrastructure
- ✓ Established a Water Partnerships Office to provide support to municipalities and other water authorities to enable private sector participation in water infrastructure

CURRENT FOCUS AREAS

| REFORM | OBJECTIVE | TIMEFRAME |
|--|---|------------------|
| Revised Raw Water Pricing Strategy | Publish the revised strategy | August 2022 |
| Improve the water use license application process | Complete implementation of turnaround plan, with 80% of applications processed within 90 days | August 2022 |
| Establish the National Water Resource Infrastructure Agency | Submit NWRIA Bill to Parliament | September 2022 |

PROGRESS UPDATE: VISA SYSTEM

A comprehensive review of the work visa system has been completed, with recommendations for reform of the visa regime to attract skills and investment. The report will be published in August 2022.

South Africa's labour market is characterised by a growing demand for skilled labour alongside high levels of unemployment for unskilled labour. Addressing the skills shortage requires a combination of short and longer-term solutions. In the short term, we need to attract skills where these are in short supply in order to boost the competitiveness of firms and enable growth and dynamism in the economy. Highly skilled foreign workers create more than one job for South African workers on average and contribute significantly to tax revenues and spending in the economy, as well as to productivity improvements and innovation.

Operation Vulindlela together with the Department of Home Affairs (DHA) undertook a comprehensive review of the regulatory framework and processes for skills visas in South Africa. The review led by Mavuso Msimang sought to identify improvements that could enhance the effectiveness of our visa system. Its recommendations aim to achieve a balance between the economic benefits of skilled immigration and the need to promote and prioritise the employment of South Africans. An effective work visa system could contribute significantly to higher levels of economic growth and position South Africa as a globally competitive destination for investment and innovation.

KEY ACHIEVEMENTS TO DATE

- ✓ eVisa system implemented in fourteen countries to facilitate growth in tourism
- ✓ Revised Critical Skills List published
- ✓ Comprehensive review of the work visa system completed

CURRENT FOCUS AREAS

| REFORM | OBJECTIVE | TIMEFRAME |
|--|---|----------------|
| Establish feasibility of a visa recognition programme | Explore the possible introduction of visa recognition, which would allow the holders of certain visas of recognised third countries to enter South Africa | September 2022 |
| Implement recommendations of the work visa review | Consider and implement recommendations on changes to the policy framework and processes for issuing work visas | March 2023 |

SPOTLIGHT ON THE ACTION PLAN TO END LOAD SHEDDING

The action plan announced by President Ramaphosa to end load shedding and achieve energy security outlines a range of significant new measures to address the energy shortfall. These actions include five priorities to improve Eskom's performance and add as much new generation capacity as possible, as quickly as possible.

PRIORITY 1: FIX ESKOM AND IMPROVE THE AVAILABILITY OF EXISTING SUPPLY

- Eskom's **operational performance is being improved** by ensuring that capable leadership and skills are in place at all power stations; recruiting experienced former Eskom staff, including engineers and power station managers; restoring good operating procedures and practices; and increasing the budget allocated for critical maintenance.
- This includes a **coordinated effort underway by law enforcement agencies** to address sabotage, theft and fraud at Eskom and improve the quality and security of coal.
- Additional capacity will be made available in the short term by **allowing existing IPPs to sell surplus power to Eskom**. This will involve amending contracts with existing IPPs from previous bid windows to enable them to sell additional capacity.
- In addition, Eskom will **procure power from existing private generators**, such as mining companies and shopping malls which have installed solar panels and can supply their excess power to the grid, through a standard offer. The DMRE is working closely with Eskom to ensure that the necessary approvals are waived or granted to enable this approach.
- Eskom is also exploring the possibility of **importing additional power** through the Southern African Power Pool.

- The **remaining units at Medupi and Kusile** will be brought online as quickly as possible. Kusile Unit 4 reached commercial operation on 1 June 2022. Unit 5 will come online in June 2023, and Unit 6 in November 2023.
- National Treasury is working on a **sustainable solution to deal with Eskom's debt** in a manner that is equitable and fair to all stakeholders. This solution should be finalised before the Medium-Term Budget Policy Statement in October and will provide Eskom with the space that it needs to undertake necessary investments.
- Climate funding provided through the Just Energy Transition Partnership will be used to **invest in the grid and repurpose decommissioned power stations**. The first solar and battery storage projects at Komati, Majuba, Lethabo and several other power stations will result in over 500 MW being added to the system.

PRIORITY 2: ENABLE AND ACCELERATE PRIVATE INVESTMENT IN GENERATION CAPACITY

- The **licensing threshold for new generation projects will be removed entirely**. This will allow private investment in much larger, utility-scale plants, harnessing economies of scale.
- Following the raising of the threshold to 100 MW in 2021, there is already a **robust pipeline of over 80 projects** with a combined capacity of more than 6000 MW.
- **Several measures are already in place to accelerate these projects**, including:
 - Embedded generation projects have been declared as Strategic Infrastructure Projects (SIPs), shortening the timeframes for environmental authorisations, water use licenses and other requirements
 - The Department of Forestry, Fisheries and the Environment has declared 11 Renewable Energy Development Zones where strategic environmental assessments have already been undertaken
 - Dedicated capacity has been created within Eskom to process grid connection applications more quickly
 - The NERSA registration process has been simplified, including through the removal of the requirement for a Power Purchase Agreement
- To further enable private investment, **special legislation will be tabled in Parliament** on an expedited basis to ease regulatory hurdles and facilitate investment in new generation capacity for a limited period.
- Eskom will proceed with the **release of land adjacent to its existing power stations** in Mpumalanga for private investment in renewable energy projects, which will unlock 1800 MW of new capacity.

PRIORITY 3: ACCELERATE PROCUREMENT OF NEW CAPACITY FROM RENEWABLES, GAS AND BATTERY STORAGE

- **Projects from the RMIPPPP and Bid Window 5 of the REIPPPP** will unlock significant new generation capacity and are ready to proceed once approvals are granted. To achieve this, **work is underway between the IPP Office, Eskom, Operation Vulindlela and the DTIC to**

ensure that these projects reach financial close as quickly as possible, including through providing specific exemptions from local content requirements.

- The **capacity procured through Bid Window 6 will be doubled** from the current allocation of 2600 MW to 5200 MW.
- Eskom is in the process of procuring 400 MW of battery storage through its Battery Energy Storage Systems (BESS) programme, with the first projects reaching completion within the next twelve months. A **further bid window for battery storage** will be released in September 2022.
- To further accelerate the procurement of additional capacity, a Ministerial determination will be issued for the remaining allocations in the IRP 2019 – this includes 14771 MW of renewable energy and storage.
- In addition, the IRP 2019 will be reviewed and updated to ensure its continued relevance in line with our energy needs and climate commitments.

PRIORITY 4: UNLEASH BUSINESSES AND HOUSEHOLDS TO INVEST IN ROOFTOP SOLAR

- There is significant potential for households and businesses to **install rooftop solar PV and connect this power to the grid**. This has benefits for users as well as for the country.
- To speed up the rollout and reduce the cost of rooftop solar, **Eskom will develop a feed-in tariff for small-scale embedded generators**.
- In addition, National Treasury will **consider the expansion of tax incentives** for residential and commercial installations.

PRIORITY 5: FUNDAMENTALLY TRANSFORM THE ELECTRICITY SECTOR TO ACHIEVE LONG-TERM ENERGY SECURITY

- Eskom has **established an independent transmission company** and is on track to separate its generation and distribution businesses by the end of 2022 to facilitate reform of the electricity sector. A **board for the transmission entity will be appointed** soon.
- Broader reforms to establish a competitive electricity market will be expedited through the **finalisation of the Electricity Regulation Amendment Bill** to enable private investment and remove the need for guarantees – this is the only long-term solution to address the shortfall.
- These changes will **allow multiple generators (both private and state-owned) to compete on an equal footing**, while the grid remains public and managed by an independent transmission company.
- This is key to **enabling new investment in generation capacity** at the scale required over the next decade and beyond – **diversifying our energy sources**.

The additional actions announced by the President will significantly accelerate reform of the electricity sector, enabling much greater private investment in electricity generation and adding new capacity to the grid as quickly as possible. At the same time, the plan focuses on improving the performance of Eskom’s existing fleet of power stations, recognising that this is essential to preventing severe load shedding from occurring in future.

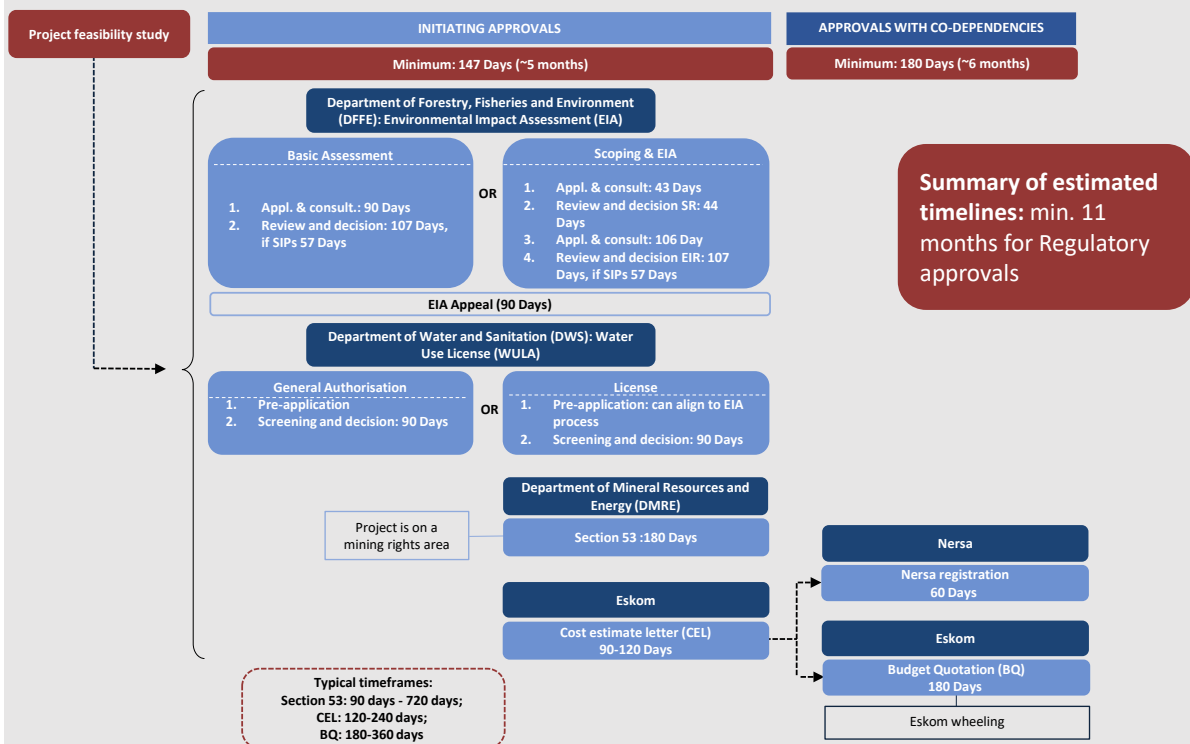
Operation Vulindlela is providing technical and coordination support to the National Energy Crisis Committee (NECOM) to ensure full implementation of this plan.

Box 1: Opportunity to reduce regulatory red tape burden for embedded generation projects

The initial amendment to Schedule 2 of Electricity Regulation Act enabled the registration of projects of up to 100MW, eliminating the requirement for a full licensing process. This reform unlocked a pipeline of projects that can now add over 6000 MW to the grid over the medium-term. **Since the lifting of the threshold in October 2021, Nersa has registered 13 projects between 5 and 100MW (with a total capacity of over 500 MW).** However, many projects remain held up by red tape, delaying the connection of new capacity to the grid.

In addition to the Nersa registration process, other licenses, permits, and authorisations are required to construct and operate renewable energy generation infrastructure. The main regulatory approvals required for embedded generators are summarised in the figure below. The process can be initiated with the environmental authorisation, the water-use license application, and Eskom connection process – which can run in parallel and are often important for determining whether a project can go forward. The second phase of approvals will entail finalising connection and initiating Nersa registration. Once all necessary approvals are obtained and projects reach financial close, they can enter construction and prepare for commercial operation.

Figure: Summary of main regulatory approvals for embedded generation projects



Source: Analysis by Operation Vulindlela

While there is a need to ensure compliance with environmental protections and grid connection requirements, the time that it takes to obtain these approvals is excessive. **Currently, it will take a project a minimum of 327 days to obtain necessary approvals.** Other project-specific approvals and/or consents are required depending on the location of the project and its likely impact. The

regulatory framework remains fragmented across departments and entities, and several processes run in sequence rather than in parallel.

The removal of the requirement for a signed PPA for Nersa registration and designation of embedded projects as Strategic Integrated Projects (SIPs) will improve regulatory timeframes. Recently announced interventions will unlock even greater investments and further streamline the regulatory framework. This includes among other interventions the removal of the licensing threshold; exemption of solar PV facilities in low to medium sensitivity areas from an environmental authorisation requirement; and the creation of a single point of entry for energy project applications to streamline the regulatory process. Special legislation will be tabled in Parliament to reduce or remove red tape where existing legislation and regulations are not sufficient.