

INDEPENDENT SYSTEM AND MARKET OPERATOR BILL (ISMO)

Legislative summary

Background

The Independent System and Market Operator Bill (ISMO) was introduced by the Minister of Energy as Bill 9 of 2012. The Bill was withdrawn in March 2014, the result of general disinterest and a change in policy from the ANC.

ISMO was touted as the mechanism that would address the conflict of interest that Eskom finds itself in as both generator and distributor of electricity in South Africa. This conflict has become especially troubling in recent years, as Eskom has shown a trend of freezing out independent power producers (IPPs), effectively monopolising South African electricity generation. The Bill would have levelled the playing field and eliminated Eskom's overriding conflict of interest to the benefit of all South Africans.

With the withdrawal of ISMO in 2014, the ANC has made it clear that it has no intention of addressing the bloated and rotting hulk that is Eskom. The ANC has actively maintained and promoted the virtual monopoly that Eskom has managed to secure by exploiting its conflict of interest as energy distributor over power generation, at the expense of IPPs. Whereas the ANC has committed to dirty, non-renewable coal (when it's not trying to sell out the country for nuclear power), the Democratic Alliance seeks to promote the ingenuity and innovation of the private sector, especially those who seek to generate energy by renewable means.

The DA will seek to revive this Bill, remedy its shortcomings, improve on it and introduce it as a Private Member's Bill.

Objectives

The Bill, will enable the creation of an independent structure (the Independent System and Market Operator) as a state-owned company responsible for system operation and the purchase of electricity from electricity generators. ISMO will effectively serve as an electricity wholesaler, selling electricity to distributors and large customers at a wholesale tariff. To avoid a conflict of interest similar to that which Eskom has conveniently found itself in, ISMO will be independent of activities related to electricity generation to ensure equal treatment of all generators. To this end, Eskom will no longer have any authority over transmission and distribution of electricity and will only function as a generator.

The end goal of the Bill is not only to end Eskom's conflict of interest and blatant marginalisation of IPPs (whose share of electricity production is less than 5 percent), but to open up the industry to competitive participation for the benefit of all South Africans.

The Bill will also aim to empower metropolitan municipalities (Metros) that have shown a track record of good governance in their finances and the management of their electricity reticulation to enter into agreements with electricity generators directly,

without having to go through ISMO as wholesale middleman. During the recent electricity crisis, the City of Cape Town has shown that with proper and capable management, planning and implementation of policy, that the burden of load-shedding can be minimalised and even avoided altogether. Metros are large distributors and are most in touch with the needs and interests of their citizens. The Democratic Alliance supports allowing competent metros with proven successful track records to take the interests of their citizens' electricity needs into their care.

Functions

ISMO will have the following functions and capabilities:

1. ISMO is required to purchase power from the generators, including Independent Power Providers (IPP's) through a power purchase agreement. ISMO is also empowered to sell this power to distributors and large customers at a wholesale tariff.
2. ISMO will be expected to include in the wholesale tariff its operational cost in accordance with the approval of the Regulator. The Regulator will regulate the wholesale tariff in terms of the ERA. Wholesale trading refers to the buying of power from generators at different prices and sale to large customers and distributors at a wholesale tariff.
3. ISMO will also be responsible for the system operation function through dispatch. ISMO will dispatch all the generation plants into the national grid except for self-dispatched plants, including but not limited to, wind- and solar plants.
4. The Bill acknowledges that planning for new generating capacity is the responsibility of the national Government. However, ISMO must be consulted from time to time to assist in respect of certain planning activities by the Minister.
5. ISMO will own and operate the national electricity grid in its entirety

ISMO as SOE

The Democratic Alliance's position towards Eskom is well known and well documented. It is an inefficient, bloated SOE that serves as another bottomless pit into which taxpayers' money disappears. By taking away distribution from Eskom, a crucial first step will be taken in the road to its rehabilitation.

The Bill will provide for the establishment of ISMO as a state-owned company with a maximum of nine Board members appointed by the Minister. The Minister must, by notice in at least two national newspapers and in the *Gazette*, invite interested persons to submit, or interested parties to nominate a candidate, within a specified period and in the manner mentioned in the notice, the names of persons fit to be appointed as non-executive members of the Board. The Minister will appoint a nomination committee to make a recommendation to the Minister for the appointment of the non-executive members of the Board. The Minister will have to ensure that the non-executive

members of the Board represent a sufficient spread of skills, knowledge, qualifications and experience to enable ISMO to function efficiently and effectively.

To avoid ISMO becoming Eskom 2.0, we will ensure that the Bill is worded in such a way as to ensure that the entity:

- Is financially viable;
- Will manage the systems entrusted to it in an efficient manner;
- Will act as a trader of electricity in line with the policies of national government;
- Will prepare appropriate and guiding input for the planning of electricity supply and its transmission;
- Is responsible and achieves the establishment, practice and maintenance of an integrated power system; and,
- Will ensure both efficient and effective dispatch within this integrated system.

Conclusion

The Democratic Alliance is committed to reforming South Africa's electricity network. The introduction of this Private Member's Bill will show that this commitment is not merely limited to oversight, but that we are willing to roll up our sleeves and fix what is broken, as it has become obvious that the ANC has no intention of doing so. We are not asking others to send themselves. We are willing to do it without being sent.