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Dear Ms. Edward

LOCAL INDUSTRY CONCERNS WITH ITP PROGRAMME

This communication serves to outline urgent concerns raised by local industry related to the Independent Transmission Programme (ITP) and to propose a strategic way forward that balances energy security with South Africa's industrialisation and job creation objectives.

BACKGROUND

The NTCSA is rolling out the Transmission Development Plan (TDP) to strengthen grid capacity and ensure new power plants can be connected to the grid in order to increase energy supply and availability in South Africa. The TDP is the largest single infrastructure programme planned in the country for the next 10 years with latest estimates of total spend of more than R400 billion. It is central to enabling new power generation capacity and securing national energy supply. If executed strategically, it also has the potential to reposition South Africa as a competitive player in the global power transmission and distribution markets. The same has been done in the past in China and India through leveraging their domestic build programmes to underpin global export competitiveness, which explains these countries' global dominance in building this type of infrastructure.

A significant domestic market is always essential to underpin export competitiveness and the South African transmission and distribution grid rollouts are sufficiently large to justify further investment and development of the local industry.

RISKS AND OPPORTUNITIES

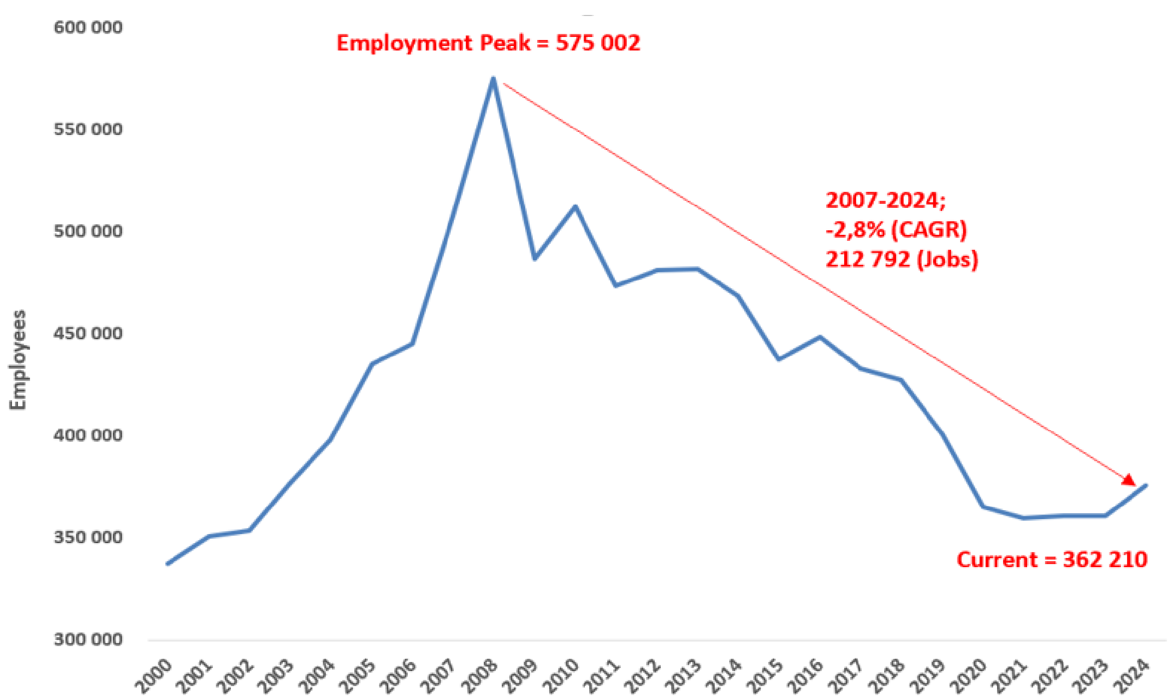
The case for supporting investment in local capacity in the TDP execution is based on the following key risks and opportunities:

1. **Global supply chain risks**
   As is the case with South Africa, most utility-scale renewable energy generation sites are located far away from their regional load centres, necessitating extensive power transmission networks. With global demand for critical transmission infrastructure many countries are prioritising their domestic needs. Reliance on imports risks delays, cost escalations, and missed project deadlines.

2. **Leveraging local industry expertise**
   South African contractors and manufacturers are familiar with local contextual conditions impacting project delivery and have demonstrated the ability to outperform their international counterparts. Local EPCs can accurately and effectively price within the local market conditions. Local manufacturers have the expertise to manufacture the required products to specification. This is demonstrated by the fact that the products on the current transmission network have been manufactured by local companies.

3. **Alignment with national industrialisation agenda and impact on jobs**
   Greater participation of local industries in such a large, multi-year project cannot be over-emphasized in South Africa, where unemployment rates are the highest globally (32% overall and 49% amongst youth). This sector has shed over 212,000 jobs in the past 15 years, yet retains strong multipliers. Each direct job generates 6 to 7 indirect jobs across the value chain. South Africa's persistently high levels of unemployment underscore the importance of ensuring that the Independent Transmission Programme (ITP) and the broader Transmission Development Plan (TDP) are leveraged not only for energy security but also as catalysts for employment creation and industrialisation.

   The significant capital spend associated with this programme presents a rare opportunity to rebuild the domestic metals and engineering sector, build an enduring industrial base, and reverse long-term trends of job losses. The metals and engineering sector, which will be the primary supplier of products into the ITP, from steel and fabricated materials through to engineering and electrotechnical products, currently employs approximately 362,210 people. This represents a sharp decline from the 575,002 employees recorded just over 15 years ago. The sector has therefore shed 212,792 jobs over this relatively short period.



This contraction constitutes not merely a sectoral challenge but a socio-economic crisis, with far-reaching implications for the economy and society. Among the key drivers of this decline has been the stagnation and long-term erosion of gross fixed capital formation in the South African economy, which has constrained investment, weakened demand for industrial products, and eroded employment capacity.

REVERSING THE TREND THROUGH STRATEGIC INVESTMENT

According to data from the Steel and Engineering Industries Federation of Southern Africa (SEIFSA), the metals and engineering sector has strong employment multipliers. For every direct job in the sector, between six and seven indirect jobs are created across the broader value chain. These include contractors, logistics providers, maintenance services, and even certain social services.

Based on the current employment figure of approximately 362,000 direct jobs, the extended employment ecosystem equates to over 2.3 million jobs across the economy. Job losses in the sector therefore carry a disproportionately negative effect on the wider economy, amplifying the impact well beyond the factory floor.

Furthermore, dependency ratios in the sector are estimated at between seven and ten dependents per job. Each job loss therefore undermines the livelihoods of entire households, compounding the severity of the socio-economic crisis.

DIRECT JOBS	INDIRECT JOBS (TOTAL ECONOMY)		DEPENDANCY FROM DIRECT JOBS	
Number	Multiplier	Total Number	Multiplier	Total Number
362 210	6,5	2 354 365	8,5	**3 078 785 ****

*** Dependency from indirect jobs is significantly more than 3 078 785.*

The sector's distress is evident in the rising incidence of companies resorting to short-time arrangements, frequent retrenchment announcements, and the steady decline of small and medium-sized enterprises (SMEs). While large retrenchments may attract public attention, the more silent erosion of SME capacity is equally concerning. These firms are critical to local supply chains, specialised services, and local economies. Their contraction erodes employment, weakens industrial resilience, and undermines prospects for future growth.

The ITP and the TDP offer an opportunity to reverse these negative trends. By deliberately directing investment spend towards local industries, and embedding a systematic and well-structured industrialisation strategy, the programmes can generate significant employment growth. The same multipliers that magnify the effects of job losses will apply positively on the upside, with each job created in the metals and engineering sector inducing an additional six to seven jobs in the wider economy. And each of these jobs has a dependency ratio of seven to ten individuals.

In this context, the design and execution of the ITP procurement process must place local industrial participation and job creation at its core, ensuring that this once-in-a-generation investment delivers enduring socio-economic benefits for South Africa.

CONCERNS WITH ITP PROGRAMME

Given the content of the RFQ, the ITP programme is not seen to be enabling participation of local industry due to the extremely onerous pre-qualification criteria that are required from the bidders.

1. **Technical and financial qualification criteria as per the RFQ**

Only a limited number of international companies globally can fully satisfy the technical and financial qualification criteria of the RFQ with no single South African company likely to qualify.

Clause 2.2.1 Technical Criterion, Contracting Structure, refers:

Clause 2.2.1.1 The respondent must demonstrate relevant experience by submitting three (3) organograms showing the contracting structure for three (3) previous Transmission Lines Independent Transmission Projects and three (3) organograms showing the contracting for three previous substation ITPs undertaken in the past fifteen (15) years.

No single South African company can meet this requirement and there is no obligation on the assumed International Participant that is able to prequalify, to identify local contracting and/or manufacturing partners.

Technical criteria also suggest that capacity by the respondent is required for all seven roles comprising:

2.2.1.4.1 Ownership of the ITP
2.2.1.4.2 Development of the Concept Design
2.2.1.4.3 Acquisition and ownership of the Rights of Way
2.2.1.4.4 Environment and Impact Assessment (EIA)
2.2.1.4.5 Development and the detail design
2.2.1.4.6 Construction and commissioning
2.2.1.4.7 Operation and maintenance

However, competencies in all of these areas to execute the seven projects specified in the ITP are not required. This is because many of the areas fall under the auspices of the NTCSA and have already been completed or are in the finalisation stage (Concept Design [2.2.1.4.2], Rights of Way [2.2.1.4.3], EIA [2.2.1.4.4.], Development and Detail Design [2.2.1.4.5], or will be addressed under its mandate (Commissioning [2.2.1.4.6]).

The seven projects are therefore at a ‘shovel ready’ stage, with Construction [2.2.1.4.6] and Operation and Maintenance [2.2.1.4.7] being the only remaining capacity requirements. Construction and Operation and Maintenance are well developed and mature competencies within South Africa’s contracting expertise.

2. **Local equity participation**

The stipulation for a 49% equity share by South African-owned entities does not explicitly include the construction and manufacturing sector. This approach allows the assumed International Participant to engage exclusively with a South African financial institution and/or "tenderpreneurs", thereby limiting collaboration with a broader spectrum of construction and manufacturing firms that contribute to employment and uphold local capabilities and stability, which are essential for long-term equity and industry growth.

3. Legislative concerns related to the public procurement regime

- One of the most significant concerns raised by industry is the need for urgent and unequivocal clarity from the Independent Power Producer (IPP) Office regarding the legislative framework under which the Independent Transmission Programme (ITP) is being procured.
- As procuring entities and organ of state, the IPP Office is bound by the requirements of the public procurement framework. However, there is currently uncertainty about the precise legislative and regulatory regime governing this programme.
- Although the Public Procurement Act was signed into law in July 2024, the subordinate legislation, particularly the regulations required to give practical effect to the Act, remain under development and are not yet finalised. In the interim, National Treasury has issued transitional regulations on preferential procurement (January 16 2023, Preferential Procurement Regulations). These interim provisions grant organs of state discretion to define and apply socio-economic obligations as they see fit. In practice, this means there is currently no overarching, binding framework compelling state entities to pursue uniform objectives such as localisation, preferential procurement, or industrial development.
- Industry is particularly concerned that the interim framework has effectively suspended certain preferential procurement and localisation provisions previously embedded in the Public Finance Management Act and in the Preferential Procurement Regulations of 2017. Those earlier frameworks provided a degree of certainty and enforceability in supporting local industry participation. Their absence means that the legal mechanisms which historically protected local suppliers and promoted industrialisation are not currently in effect.
- This raises the risk that long-term procurement decisions, such as those to be made under the ITP, could be undertaken on the basis of interim regulations that lack robust localisation requirements. Such decisions would have significant long-term consequences, to the detriment of South African industry, as procurement under this programme is expected to have enduring impacts far beyond the present procurement cycle.
- At present, industry's expectations of localisation under the ITP rest largely on public assurances made by the Minister of Electricity and Energy, representatives of the NTCSA and the IPP Office in various fora. While such commitments are welcome, they remain verbal in nature, lacking codification in a binding, enforceable framework. In the absence of such a framework, there is a material risk that these assurances will not translate into concrete outcomes during project execution.
- Experience has shown that deviations from stated commitments often occur in practice, with justifications such as supply chain efficiency, speed of procurement, capacity constraints, or security-of-supply considerations being used to sidestep localisation objectives. These justifications are frequently weak and ill-informed, but in the absence of a clear enforcement mechanism, they go unchallenged.
- Industry has also found that when execution on the ground diverges from policy-level commitments, the channels for raising concerns and ensuring corrective action are slow to respond, if they exist at all. This lack of an effective feedback loop creates an

accountability gap. Transgressions often persist without consequence, undermining both trust in the system and the objectives of localisation and industrialisation.

PROPOSED CONSIDERATIONS

Industry tables the following key issues for urgent consideration in the drafting of the RFP:

1. **Equity participation: Requirement to include relevant local expertise**
   We propose the inclusion of a provision that the majority equity holder in the South African consortium that holds 49% must have the necessary technical expertise. More specifically, we suggest that respondents must include South African contractor(s) and/or South African manufacturer(s).

2. **Local content provisions: specific reference to procurement of products and services**
   We propose the inclusion of clauses that specify the minimum percentage of products and services to be sourced locally. This should ideally be aligned with designation as per the DTIC and National Treasury. For example, 100 % of the steelwork and hardware as local manufacturers already have established capabilities to produce these items. Providing such certainty of demand will encourage and justify investment in additional local manufacturing capacity where required. This inclusion speaks directly to the industrialisation of this sector and the corresponding job creation and multiplier effects thereof.

In parallel, the following item is highlighted:

3. **Public Procurement Regime:** It is unclear through which legislative and regulatory regime the Independent Transmission Programme is being procured. It is also not clear which preferential procurement framework will be applied in the execution of this programme, and how will it align with localisation and industrialisation objectives.

In essence, we stress the importance of:

4. **Government directing a programmatic procurement framework for the ITP/TDP, aligned with localisation and industrialisation objectives.**

   Local industry strongly supports a more programmatic procurement approach to executing the TDP, where procurement becomes a strategic tool to deliver the best possible outcomes for the country as a whole. This is to be done in collaboration between the IPP office, NTCSA, other organs of state and local industry.

- **A clear localisation roadmap be incorporated into ITP execution, with measurable targets for industrial participation, job creation, and export readiness.**

  This will allow for mechanisms to be put in place to ensure that commitments to local procurement and industrialisation are translated into practice.

In conclusion, the ITP and broader TDP are not only about strengthening South Africa's grid; they are a once-in-a-generation opportunity to rebuild our industrial base, create jobs, and position the country as a continental leader in transmission and distribution infrastructure. Local industry stands ready to partner with government to ensure that this opportunity is seized.

We are available to meet for further discussion at your earliest convenience.

Yours sincerely

S V Moodley	**L Trentini**	**P Rodseth**
Board Chairman	Chief Executive Officer	Executive Director
POLASA	SEIFSA	Manufacturing Circle

CC.

- Department of Electricity and Energy (DEE)
- The National Treasury
- Department of Trade Industry and Competition (DTIC)
- National Transmission Company of South Africa (NTCSA)
- Localisation Support Fund (LSF)
- IPP Office