

ESKOM

**APPLICATION FOR SUSPENSION OF THE
MINIMUM EMISSIONS STANDARDS
COMPLIANCE TIMEFRAMES FOR THE ARNOT
POWER STATION**

DATE: November 2018

TABLE OF CONTENTS

1	INTRODUCTION	4
2	ESKOM'S EMISSION REDUCTION PLAN	4
3	ARNOT REQUESTED EMISSION LIMITS	6
4	LEGAL BASIS FOR DECISION-MAKING	7
4.1	Regulatory Requirements	7
4.2	Changes in Regulatory Framework	7
4.3	The Need to Amend the Variation Requests	7
5	REASONS FOR APPLYING FOR SUSPENSION	8
5.1	Remaining Power Station Life	8
5.2	Water Availability	8
5.3	Environmental Implications of FGD	9
5.4	Arnot Impact on Ambient Air Quality	10
5.4.1	Sulphur Dioxide	10
5.4.2	Nitrogen Oxides (NO _x)	10
5.4.3	Particulate Matter (PM)	11
5.4.4	The Highveld Priority Area	11
5.4.5	Cumulative Assessment of Requested Emission Limits in the Northern Highveld	11
5.5	Cost Implications of Compliance with the MES	11
5.5.1	Direct Financial Costs	12
5.5.2	Electricity Tariff Implications	13
5.5.3	Cost Benefit Analysis	13
5.6	Project Planning and Delays	14
6	PUBLIC PARTICIPATION	15
7	EMISSION OFFSETS	15
8	CONCLUSIONS	16

LIST OF FIGURES

Figure 1: Household Intervention for Lead Implementation Sites (KwaZamokuhle and Ezamokuhle)	16
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LIST OF TABLES

Table 1: Current and requested emission limits for Arnot	6
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LIST OF ACRONYMS

AIR	Atmospheric Impact Report
AEL	Atmospheric Emission License
APPA	Atmospheric Pollution Prevention Act, 1965 (Act No. 45 of 1965)
AQMP	Air Quality Management Plan
DEA	Department of Environmental Affairs
DOE	Department of Energy
EIA	Environmental Impact Assessment
ESP	Electrostatic Precipitator
FGC	Flue Gas Conditioning
FGD	Flue Gas desulphurisation
GNR	Government Notice No.
HFPS	High Frequency Power Supply
FGD	Flue gas desulphurisation
GNR	Government Notice No.
IRP	Integrated Recourse Plan
IRR	Issues and Response Report
LNB	Low NO _x Burner
LPG	Liquid Petroleum Gas
NAAQS	National Ambient Air Quality Standards
NAQO	National Air Quality Officer
NEMAQA	National Environment Management: Air Quality Act, 2004 (Act No. 39 of 2004)
NEMA	National Environmental Management Act, 1998 (Act No. 107 of 1998)
NERSA	National Electricity Regulator of South Africa
NO	Nitrogen oxide
NO ₂	Nitrogen dioxide
NO _x	Oxides of nitrogen (NO _x = NO + NO ₂)
PM	Particulate Matter
PM ₁₀	Particulate Matter with a diameter of less than 10 µm
PM _{2.5}	Particulate Matter with a diameter of less than 2.5 µm
RTS	Return to Service
SO ₂	Sulphur dioxide
TSP	Total Suspended Particulates
µm	1 µm = 10 ⁻⁶ m
WHO	World Health Organisation

LIST OF ANNEXURES

Annexure A	Atmospheric Impact Report – Arnot
Annexure B	Summary Atmospheric Impact Report
Annexure C	Health impact focussed cost benefit analysis
Annexure D	Public Participation report

1 INTRODUCTION

Eskom, as South Africa's public electricity utility, generates, transmits and distributes electricity throughout South Africa. The utility also supplies electricity to neighbouring countries including Namibia, Botswana, Zambia, Zimbabwe and Mozambique. Eskom's principal generation technology is pulverised coal with approximately 90% of its current generating capacity is from coal-fired power stations. One of the 15 power stations is the Arnot Power Station (hereafter referred to as "Arnot"), which lies in the Nkangala District of the Mpumalanga Province, 38 km south-east of Middelburg. The area surrounding the power station is primarily agricultural and includes coal mining.

In terms of the Integrated Resource Plan, stations will be decommissioned at 50 years. The exact date of decommissioning is determined by current and future demand, the performance of other electricity generating plants and the cost of generation. The last of Arnot's generating units was commissioned in 1979 and it is intended to decommission the station between 2021 and 2029. Ten (10) units at Grootvlei, Hendrina and Komati have been shut down prior to the 50 year life and put into extended storage.

In terms of the National Environmental Management: Air Quality Act, 2004 (Act No. 39 of 2004) (NEMAQA), all of Eskom's coal and liquid fuel-fired power stations are required to meet the Minimum Emission Standards (MES) contained in GNR 1207 on 31 October 2018 ("GNR 1207") which was promulgated in terms of Section 21 of the NEMAQA¹. GNR 1207 provides arrangements in respect of: a once off postponement with the compliance of minimum emissions for new plant for five years from the date of issue, no once off postponement will be valid beyond 31 March 2025; a once off suspension for plants being decommissioned by 31 March 2030; the National Air Quality Officer may grant an alternate emission limit or emission load if certain conditions are met. The application for any of these requests must be submitted by 31 March 2019.

Arnot already achieves the 50 mg/Nm³ Particulate Matter (PM₁₀) for 'new' MES limits. Arnot complies with the existing plant standards for nitrogen oxide (NO_x) (1100 mg/Nm³) and for sulphur dioxide (SO₂) (3500 mg/Nm³). However, Eskom's Arnot Power Station will not be able to comply with the 1000 mg/Nm³ 'new plant' MES for sulphur dioxide (SO₂) and 750 mg/Nm³ 'new plant' MES for nitrogen oxides (NO_x). As Arnot will be decommissioned before 31 March 2030, Eskom is applying to the National Air Quality Officer for a once-off suspension of compliance timeframes with minimum emission standards for new plant. Arnot will comply with minimum emission standards for new plant for PM and existing plant SO₂ and NO_x up until decommissioning.

The purpose of this document is to present an application for the suspension of the requirement to meet the 2025 compliance date and propose an alternative limit for Arnot as required in terms of GNR 1207. The document has been structured to present Eskom's atmospheric emissions reduction plan including the current decommissioning of units, the decommissioning plan and its influence on Eskom's emissions. Based on this application for suspension, emission limits to which Arnot could be held and which could then be included in the Atmospheric Emission Licence (AEL) are proposed. The legal basis for the suspension is then presented, including the requirements that must be met in making such an application. Finally, the reasons for the application for postponement are presented.

2 ESKOM'S EMISSION REDUCTION PLAN

Eskom considers that it is not practically feasible or beneficial for South Africa (when considering the full implications of compliance and planned decommissioning) to comply fully with the 'new plant' MES by the

¹ GNR 893 amended the "original: MES regulations GNR 893 which were promulgated on 22 November 2013 in terms of Section 21 of the NEMAQA

stipulated timeframes. This is elaborated on in the sections below. As a result, Eskom proposes to adopt a phased and prioritised approach to compliance with the MES. Highest emitting stations will be retrofitted first. Reduction of Particulate Matter (PM) emissions has been prioritised, as PM is considered to be the ambient pollutant of greatest concern in South Africa. In addition, Eskom proposes to reduce NO_x emissions at the three highest emitting stations. Kusile Power Station will be commissioned with abatement technology to achieve the new plant standards. Medupi is commissioned with abatement technology which can meet PM and NO_x new plant standards and will be retrofitted with flue-gas desulphurisation (FGD) so that the new plant SO₂ limit will also be achieved over time. There are six power stations which will be decommissioned before 2030, an additional two by 2035 and the remaining existing plants (excluding Majuba, Medupi and Kusile) by 2043.

Emission reduction interventions to achieve compliance with the new plant emission limit are planned for the following stations:

- Particulate Matter emission reduction: Tutuka, Kriel, Matla and Duvha Units 4-6, Matimba, Kendal and Lethabo;
- NO_x emission reduction: at Matla, Majuba, Tutuka, Camden; and
- SO₂ emission reduction: at Medupi and a pilot study which will confirm the appropriate technology for Matimba and Kendal.

Currently the Integrated Resource Plan is based on a 50-year life for all power stations however the actual shut down and decommissioning dates of power stations are determined based on economic, supply and demand side criteria. In 2017/18 10 units at Eskom's most costly and oldest plants namely Grootvlei, Hendrina, and Komati and were shut down for reserve storage². Based on the current electricity demand these three power stations will be shut down and later decommissioned by 2025. Further, Arnot, Camden, and Kriel will be decommissioned by 2030. The shutting down of these power plants will reduce the cumulative pollution in the three airsheds, some reduction has already materialised due to the 11 units which are shut down for reserve storage in 2017/18. The emissions load will continuously decrease ensuring that health impacts from Eskom's power stations will not increase.

The retrofits listed above are over and above the emission abatement technology which is already installed at Eskom's power stations, which is:

- Electrostatic Precipitators (ESPs) at Matimba, Kendal, Lethabo, Matla, Kriel, Tutuka, Komati 3 of the 6 units at Duvha. In addition SO₃ injection plants have also been installed at those stations with ESPs, except Tutuka, to improve the efficacy of the same;
- Fabric Filter Plants (FFPs) at Majuba, Arnot, Hendrina, Camden, Grootvlei, Medupi, Kusile and 3 units at Duvha;
- Boilers with Low NO_x design at Kendal and Matimba;
- Low NO_x Burners (LNBS) at Medupi, Kusile, Ankerlig, Gourikwa, and some units at Camden; and
- Flue gas desulphurisation (FGD) at Kusile.

Eskom applied and was granted a first round of postponements between 2014 and 2015. Since then Eskom has updated its emission reduction plan to include the enhancement of existing particulate matter abatement technology currently installed at Kendal, Matimba and Lethabo Power Stations.

Implementing the emission reduction plan and installing more efficient emission control technology will reduce Eskom's emissions. The decommissioning of the older stations (including Arnot) and an increased use of the newer less emitting Medupi and Kusile will also result in a substantial decrease in Eskom's emissions over time

² A unit at Duvha has also been shutdown

(see figures 2,3, and 4) and table 1 for the percentage decrease. For example it is projected that compared to a 2020 baseline that by 2035 Eskom's relative PM emissions will reduce by 58%, SO₂ by 66% and NO_x by 46%.

Eskom's proposed atmospheric emission reduction plan is estimated to cost R 67 billion over the next 10 years. The cost have been included in the latest Multi Year Price Determination tariff application.

The retrofit schedule and projected emission reduction above clearly illustrates Eskom has been and remains committed to implementing emission reduction technologies to improve air quality in South Africa. Though there are delays in the implementation of the retrofit plan Eskom remains committed to ensuring these planned technology installations are completed.

A detailed discussion on Eskom's emission reduction plan is provided in the Eskom Summary Document.

3 ARNOT REQUESTED EMISSION LIMITS

The current limits listed in Table 1 are as in Arnot's AEL (ref: 17/4/AEL/MP313/11/10). The alternative emission limits that are requested for Arnot during normal operating conditions are:

Table 1: Current and requested limits for Arnot

	Current Limit (from AEL/MES)			Requested Emission Limits***		
	Limit value (mg/Nm ³)	Averaging period	Date to be achieved by	Limit value (mg/Nm ³)	Averaging period	Date to be achieved by
Particulate Matter	100	Daily	1 April 2015	50	Daily	1 April 2020
	50	Daily	1 April 2020			
Sulphur Dioxide	3500	Daily	1 April 2015	2500	Daily	1 April 2020
	2500	Daily	1 April 2020 to 31 March 2025			
	500		1 April 2025			
Nitrogen Oxides	1200	Daily	1 April 2015 to 31 March 2020	1000	Daily	1 April 2020
	750	Daily	1 April 2020			

***The requested interim emission limits above are in mg/Nm³ at 273 K, 101.3 kPa, dry and 10% O₂.

In summary the postponement requested for Arnot is request for (i) Suspension of compliance from the new plant MES NO_x standard (750 mg/Nm³) and SO₂ standard (1000 mg/Nm³) until station decommissioning by 2030. In terms of the existing license Arnot has until 1 April 2025 to comply with the SO₂ limit. It is therefore understood that this previously granted postponement will remain in place until 2025 and thereafter until decommissioning based on request for suspension. An alternative a daily limit of 1000 mg/Nm³ for NO_x is requested and a daily limit of 2500 mg/Nm³ for SO₂ both from 1 April 2000 until decommissioning by 2029.

Based on the remaining life of the Arnot power station, the techno-economics and cost benefits assessment any additional measures other than what was committed to above and the emission limits requested are not financially viable.

It is requested that the alternative limits only apply during normal working conditions, and not during start-up or shut-down, upset conditions and maintenance periods.

4 LEGAL BASIS FOR DECISION-MAKING

4.1 Regulatory Requirements

In terms of Section 14(1) of the NEMAQA, the Minister of Environmental Affairs ("Minister") must designate an officer in the Department of Environmental Affairs (DEA) as the National Air Quality Officer. In this regard, Dr Thuli Khumalo has been designated by the Minister as the current National Air Quality Officer. Section 14(4)(b) of the NEMAQA provides that the National Air Quality Officer may delegate a power or assign a duty to an official in the service of his/her administration. It is our understanding that no such delegation has been made for the area of jurisdiction in which the power station is located. Accordingly, Eskom submits this Application to the National Air Quality Officer (NAQO).

In terms of Paragraph (12)(a) – (c) of GNR 893 of 22 November 2013 (the Regulations) as amended by GNR 1207 of October 2018, the application must include:

1. An air pollution impact assessment compiled in accordance with the regulations prescribing the format of an Atmospheric Impact Report (AIR) (as contemplated in Section 30 of the NEMAQA), by a person registered as a professional engineer or as a professional natural scientist in the appropriate category;
2. A detailed justification and reasons for the Application; and
3. A concluded public participation process undertaken as specified in the National Environmental Management Act and the Environmental Impact Assessment (EIA) Regulations made under section 24(5) of the afore mentioned Act.

In respect of these requirements we have attached –

1. As Annexure A, a copy of the AIR prepared in respect of Arnot. The AIR provides, *inter alia*, an assessment of how ambient air quality is likely to be affected by Arnot's requested emission limits by utilising, *inter alia*, atmospheric dispersion modelling;
2. Detailed justifications and reasons for the Application (see Section 5 below) and,
3. A comprehensive report on the public participation process followed, and associated documentation (Annexure D).

4.2 Changes in Regulatory Framework

In October 2018 the 2017 National Framework for Air Quality Management in the Republic of South Africa and the Amendment to Listed Activities and Associated Minimum Emission Standards Identified in terms of Section 21 of NEMAQA were published. While Eskom and the independent consultants appointed to complete the AIR will make every effort to provide complete information, Eskom reserves the right to supplement the information if it deems appropriate or if requested to do so by the NAQO.

4.3 The Need to Amend the Variation Requests

In terms of timing, Eskom is required to submit an AEL variation request parallel to this application. The variation request is prepared based on the assumption that this application is granted by the NAQO. If the NAQO decision is substantially different from that applied for, Eskom reserves its right to amend its variation request.

5 REASONS FOR APPLYING FOR SUSPENSION

As mentioned above, the application for suspension must be accompanied by reasons. Such reasons are set out below and include the fact that Arnot has a short remaining life; emissions from Arnot will not result in substantial additional non-compliance with National Ambient Air Quality Standards (NAAQS); together with a suite of undesired environmental consequences of compliance with the MES including associated water demands, transport impacts and increases in waste and carbon dioxide (CO₂) production. These undesired consequences together with the financial costs of compliance (such as an increase in the electricity tariff) must be weighed up against the benefits that will accrue as a result of compliance with the MES. It is Eskom's view that the benefit of compliance does not justify the non-financial and financial costs of compliance and as such the requested suspension and emission limits should be granted (see section 5.5 below for the details of the cost-benefit analysis completed).

None of these reasons should be seen as exclusive (i.e. it is not one reason alone that indicates full compliance to the MES is not appropriate) but rather all in combination. As set out in the Constitution of the Republic of South Africa, there is the need to recognise the interrelationship between the environment and development. There is a need to protect the environment, while simultaneously recognising the need for social and economic development. There is the need therefore to maintain the balance in the attainment of sustainable development.

5.1 Remaining Power Station Life

Arnot is currently scheduled to be decommissioned between 2021 and 2029, according to the Integrated Resource Plan.

Based on Eskom's experience at Medupi it is estimated that the time required for FGD development and construction would be 12 years (project development 4 years, commercial process 2 years and construction 6 years – one unit per year). Given these project timelines construction of FGD would be taking place simultaneously with the decommissioning of the station (assuming all other issues discussed below could be addressed) – an illogical arrangement. Arnot has a postponement from the SO₂ limit until 2025 and therefore will have already commenced with decommissioning prior to being required to retrofit.

5.2 Water Availability

Water is an extremely limited resource in South Africa and it is argued that the implementation of FGD at Arnot is not an appropriate decision for a water scarce country. Arnot Power Station being a wet-cooled cooled power station, means that it uses large quantities of water.

Both wet and semi-dry FGD are critically dependant on large quantities of water being available at the power stations where FGD is deployed. Recent investigations undertaken for Medupi indicate that the implementation of FGD will increase its water requirement to up to 9 Mm³/annum. Wet FGD approximately triples the water consumption of a dry-cooled power station; semi-dry FGD more than doubles the water consumption of a dry-cooled power station (a wet cooled power station uses more than 10 times the amount of water of an equivalent dry-cooled power station. Typically 0.12 l/kWh for dry cooled to 2 l/kWh for wet cooled). Retrofitting Arnot with FGD would require an additional 5.2 million m³/annum.

The water demands of FGD are thus significant across the power stations and will increase Eskom's water demand by some 59 million m³/annum – a 20% increase in the combined water consumption of Eskom's power stations³.

The total water demands in the Integrated Vaal River Catchments presently exceed the water availability in the catchment until Phase 2A of the Lesotho Highlands Water Project (LHWP) is implemented. The projected completion date of Phase 2A of the LHWP now being beyond 2026. The water supply deficit is expected to grow with the growing urban demand in the greater Gauteng area. It is unlikely that DWS will license new major demands in this system until then. Thus far all efforts by DWS to reduce demand in the Vaal River system have been delayed or ineffective. Rand Water for example are requesting an increase in its water license volume to cater for the additional demand and DWS have refused thus far as there is no water available in the Vaal System.

Eskom has a combined water licence of 360 million m³/annum from the Vaal River Eastern Subsystem to generate electricity (licensed to Oct. 2025 when it will get reviewed). Some of Eskom's older power stations are expected to be decommissioned within the next 5 to 10 years but that does not significantly contribute to reducing the shortages in the Vaal River System as the declining demand for Eskom's water use is already taken into account in the annual operating analysis. Eskom will not be able to re-allocate its water allocation to FGD as a relinquishing of our licenced volume goes back to DWS to determine whom would be the best user for the water being made available.

Beyond 2026 when LHWP 2 comes into operation it is possible that water is available for retrofits to the current fleet supplied from the Vaal System.

The argument is also not just one of having water available in the catchment, it is also one of determining whether FGD is a judicious use of what is an extremely scarce resource in South Africa in the face of multiple competing demands for that same resource. Especially since more than 98% of South Africa's available water has already been allocated.

5.3 Environmental Implications of FGD

Assuming FGD was required for Arnot which is as said impractical FGD is not without negative environmental consequences:

- Up to 235 000 tons of sorbent (limestone) per annum is required to operate the FGD at Arnot. The main source of sorbent is the Northern Cape, so the sorbent would need to be transported over hundreds of kilometres, preferably by rail or otherwise by road. The transport of the sorbent would result in environmental impacts, notably greenhouse gas emissions, and fugitive dust emissions. An increase in truck traffic would also result in an increase in driver mortalities, as has been observed in association with coal transport in Mpumalanga.
- Up to 420 000 tons of gypsum will be produced per annum as a by-product of the FGD process. If a high quality limestone is used, a high quality gypsum can be produced by wet FGD, and this could be taken up by the market for e.g. wallboard production. Lower grade gypsum can also be used for agricultural purposes. However, if there is not sufficient demand from the market, the gypsum will need

³ **Assuming that wet FGD is installed on the 5 newest stations excluding Kusile, and semi-dry FGD is installed on the rest of the coal-fired fleet, excluding stations which will be decommissioned by 2030. The October amendment of the MES for SO₂ new plant to 1000 mg/Nm³ will require a revision of technology choices.*

to be disposed of in which case it would need to be managed carefully to ensure that there are no impacts on groundwater or air quality (from fugitive dust emissions).

- Arnot is expected to produce an additional approximately 90 000 tons of CO₂ per annum, as the wet FGD process directly produces CO₂ as a by-product through the reaction: SO₂ + CaCO₃ → CaSO₄ + CO₂. In addition, the electricity output of Arnot would be reduced by around 1% due to the additional auxiliary power requirements of the FGD, and correspondingly the relative CO₂ emissions would increase by 1%.

5.4 Arnot Impact on Ambient Air Quality

The impact of Arnot's emissions on ambient air quality has been comprehensively assessed in the accompanying independently compiled Atmospheric Impact Report (Annexure A). An analysis of ambient air quality from the KwaZamokuhle ambient air quality monitoring station in the vicinity of Arnot was used.

The ambient air quality monitoring station at KwaZamokuhle is measuring, amongst others, ambient SO₂, NO₂ and PM₁₀ concentrations and meteorological parameters.

An analysis of ambient SO₂ concentrations measured at the KwaZamokuhle ambient air quality monitoring station (assessed in the accompanying independently compiled Atmospheric Impact Report) indicates compliance with the 10-minute, hourly, daily and annual average NAAQS for SO₂ but non-compliance is evident in 2016 for daily SO₂ concentrations implying sustained, elevated SO₂ concentrations in the area. Ambient PM measured at the monitoring station indicates non-compliance with both the daily and annual NAAQS, but the contribution from Arnot Power Station to ambient PM levels is predicted to be small even considering the inclusion of PM_{2.5} formed through the conversion of SO₂ and NO_x. Arnot already complies with the new plant MES for PM.

Dispersion modelling of the current emissions for SO₂, NO_x and PM₁₀ from Arnot alone, indicates compliance with the relevant NAAQS for all averaging periods. The net effect of all of the above is that PM is already and unequivocally resulting in unacceptable health risk for a large part of the Highveld. The direct contribution of Arnot alone to that situation is considered to be small even taking into account predicted concentrations of secondary PM_{2.5}.

5.4.1 Sulphur Dioxide

10-minute average for sulphur dioxide (SO₂) concentrations indicates that 99.6% of the measured concentrations are below 300 µg/m³ and that full compliance with the NAAQS is implied in the monitored data. Data recovery in 2015 is too poor, however, to conclude definitively that there was compliance for that monitoring year. Hourly average sulphur dioxide concentrations indicate that more than 96% of the concentrations are below 200 µg/m³ and that there is full compliance with the NAAQS. Daily averages indicated that despite more than 90% of the concentrations being below 100 µg/m³ there is non-compliance with the NAAQS in 2015 and 2016. Annual average concentrations also indicate full compliance with the NAAQS.

5.4.2 Nitrogen Oxides (NO_x)

Hourly average for nitrogen dioxide (NO₂) concentrations indicates that more than 90% of the concentrations are below 50 µg/m³ and full compliance with the NAAQS is implied. Annual average concentrations also indicate full compliance with the NAAQS.

5.4.3 Particulate Matter (PM)

Daily and annual averages for particulate matter (PM₁₀) concentrations measured indicate that there is non-compliance with the NAAQS for all three monitoring years (2015, 2016 and 2017). The same applies for PM_{2.5} and its annual averages.

5.4.4 The Highveld Priority Area

Eskom is aware that Arnot is situated within the Highveld Priority Area and is, as such had plans for making a substantial financial investment into reducing emissions from Arnot's operations, through the upgrade of emissions reduction technologies on each of the station's units. Arnot does have Fabric Filter Plants (FFPs) installed and already achieve the new plant emission standard for PM. However due to Arnot power station's short remaining life, with some units shut down for reserve storage and final decommissioning planned for between 2021 and 2029 in terms of the IRP there are no plans to upgrade any additional pollution abatement.

5.4.5 Cumulative Assessment of Requested Emission Limits in the Northern Highveld

In addition to the individual AIR completed for each power station, an air quality report, considering the cumulative impact of the Eskom stations including Arnot over the HPA was completed (Annexure B). The analysis included three scenarios; which considered (1) the actual emissions, (2) emissions if the MES was complied with and (3) emissions if six power stations are decommissioned by 2030. The general conclusions of the analysis indicate that the quality of air will be in compliance with NO₂ National Air Quality Standards (NAAQS), but noncompliance with the daily and annual SO₂ standards in several areas across the Highveld. Daily and annual average PM₁₀ and PM_{2.5} concentrations could be in noncompliance and for extended periods of time. The effect of the above is that PM ambient levels currently result in increased health risk for a large part of the Highveld.

Dispersion modelling results based on individual and combined power station emissions, excluding all other sources; indicate a negligible contribution to PM pollution. In addition the diurnal pattern in PM concentrations based on monitored ambient data clearly indicate a morning and early evening peaks, typical of low level source contributions. However, a combination of SO₂ and NO_x emissions from all the Highveld power stations is predicted to form a significant component of the PM_{2.5} load especially over Emalahleni area, which is in noncompliance with PM standards, is a cause for concern.

In addition, the combined SO₂ emissions from all Eskom power stations are predicted to contribute a significant amount to the pollution in and around the Emalahleni and Middelburg areas and even extending south towards Komati Power Station. However analysis indicates that the non-compliance is not only due to Eskom Power Stations but a function of a multitude of sources in the Highveld.

The dispersion modeling and ambient air quality monitoring data indicate that the elevated pollution levels in the Highveld require a holistic approach, addressing all identified and potential sources. Therefore, a single approach, targeted at only eliminating Eskom power station emissions will not result in acceptable ambient air quality levels that are not harmful to human health and the environment.

5.5 Cost Implications of Compliance with the MES

The financial implications of compliance to the MES, most especially the financial implications of compelling existing plants to comply with 'new plant' standards is presented below.

5.5.1 Direct Financial Costs

Eskom estimates that the CAPEX cost of full compliance with the MES at all Eskom's power stations is greater than R187 billion in 2018 real terms (excluding financing costs), and that annual OPEX costs are at least R5 billion per annum. This includes the costs for emission control for the entire existing fleet and flue gas desulphurisation at Medupi. Medupi's other emission abatement costs and all emission abatement costs for Kusile have been excluded from these totals because they have already been incorporated into the Medupi and Kusile projects. These costs are considered to be accurate to a factor of two.

The breakdown of the CAPEX costs is as follows:

- SO₂ emission reduction by FGD is estimated to cost R 140 – 175 billion. The estimated cost assumes R 15 - 26 billion per power station dependent on installed capacity and wet or dry FGD technology. It is taken that wet FGD is implemented on Medupi, Majuba, Matimba, Kendal, and Tutuka, (power stations being decommissioned after 2035) and that semi-dry FGD is implemented on Duvha, Lethabo and Matla (stations decommissioned between 2030 and 2035). For the tariff impact calculation an amount of R150 billion is used.
- NO_x emission reduction by the most appropriate technology is estimated to cost between R10 and R40 billion for all power stations. This includes Low NO_x Burner retrofits at stations which need them, and burner optimisations at others. For the tariff impact calculation an amount of R20 billion is used.
- Particulate Matter emission reduction by FFP retrofits is estimated to cost between R15 and R40 billion. For the tariff impact calculation an amount of R40 billion is used.

Full compliance with the MES at Arnot would require a FGD retrofit, which is the only way of consistently achieving the new plant SO₂ emission limit, in excess of R30 billion and a LNB retrofit estimated to cost in excess of R1 billion Rands.

The CAPEX cost estimates were derived as follows:

- FGD: Costs for existing stations are based on a study done by EON Engineering for all Eskom's power stations in 2006, adding on provisions for balance of plant considerations and owner's development costs, and inflated to 2013 costs. Costs are considered to be accurate to a factor of 2. Costs for Medupi are according to the Concept Design Report, and are considered to be accurate to within 20%.
- Low NO_x Burners and/or Overfired Air: Costs are based on International Energy Agency (2006) costs, escalated for inflation, rate of exchange and Owner Development Costs. Costs are considered to be accurate to a factor of two.
- FFPs: Costs are based on actual tender prices for an enquiry for FFP retrofits at Matla and Duvha in 2011/12. Costs are considered to be accurate to 40% for Tutuka, Matla, Duvha and Grootvlei and to approximately a factor of two for other power stations.

The OPEX costs are only for flue gas desulphurisation, and are also based on costs in the EON Engineering report for the existing fleet, and on costs in the Medupi Concept Report for Medupi. Again, the OPEX costs do not include OPEX for Kusile. The main cost items are the sorbent (limestone), water, gypsum disposal, auxiliary power and maintenance costs. For the tariff impact calculation an amount of R6.3bn per annum is used.

The certainty with which Eskom presents costs depends on the stage of the project. Before concept release approval, costs are based on averages of published international data and benchmarks for similar technologies, and so are considered to be accurate to a factor of two. Once the conceptual designs have been done, costs are generally accurate to within 50%. Once the detailed designs are completed, costs are considered to be accurate to within 20%. Once the contracts have been placed, costs are considered to be accurate to within 10%. There is only complete certainty about the costs once the contract has been completed.

5.5.2 Electricity Tariff Implications

The electricity tariff is the mechanism through which the cost of producing electricity is recovered from the consumers thereof. The cost of compliance with the MES would be part of the inherent cost of production of electricity in future. Eskom has estimated that full compliance with the MES by 2020 would require the electricity tariff to be on average between 7 and 10% higher than what it would be in the absence of the emission abatement retrofits, over a 20-year period. The difference between the base tariff and the tariff including the costs of MES compliance would be slightly higher (than the mentioned average) in the earlier years and slightly lower than the mentioned average in the later years. The implications for the tariff are of course dependent on when the emission abatement retrofits are installed, and what assumptions are used for interest and inflation rates and future base electricity tariffs.

This tariff calculation is based on the following assumptions:

- The CAPEX and OPEX costs are the mid-point amounts as provided above.
- The CAPEX costs are incurred in 2020, and fully implemented over a period of up to six years (with a shorter period resulting in the higher %, in the range mentioned above).
- The average remaining power station life is 20 years, thus the CAPEX costs for the retrofits are depreciated over a 20-year period.
- The inflation rate is 6%.
- Nominal pre-tax cost of capital is 14%.
- Cost-reflective electricity tariffs are reached within five years after the Multi Year Pricing Determination 4 (MYPD4) electricity tariff agreement (from 2018-20).

The electricity tariff is applied for by Eskom, but decided on by the National Electricity Regulator of South Africa (NERSA). Eskom has included the CAPEX required to cover the proposed emission reduction plan with an estimated cost of R 67 billion over the next 10 years, it is covered in the MYPD4 application (for costs over the next 3 years). If there is a requirement for additional retrofits based on the DEA response to this application, these costs would need to be provided for through the tariff (i.e. opex recovered annually, capex recovered over the operational life of the assets), failing which Eskom's financial health will further deteriorate and the ability to raise funding for these projects would be limited. The original assumptions however, are still at risk. If the price increase of 15% per annum is not approved by NERSA, Eskom would need to further prioritise its operations and seek further support to its balance sheet. In addition, Eskom has not reached a level where it is recovering its efficient and prudent costs (even at the end of the MYPD 4 period if the 15% increase is approved).

5.5.3 Cost Benefit Analysis

The basis of the assessments of the impact of Arnot's emissions on human health and the environment is a comparison of the measured and predicted air quality concentrations with the NAAQS. Stakeholders have argued correctly that the NAAQS cannot be interpreted to imply no health risk at all but the counter argument is that the NAAQS express a 'permissible' level of risk. To manage air quality to a point that it is completely free of risk is to invoke such significant financial and non-financial costs that those costs will in themselves result in severe potential economic and social consequences. In these terms it is necessary to present here some perspectives on the cost-benefit of full MES compliance.

The 2017 National Air Quality Framework for Air Quality Management provision is made for suspensions and alternative emission limits due to the potential economic implications of emission standards on existing plant. The provision is provided because a sector specific CBA was not completed prior to setting standards. Eskom commissioned a CBA to support the decision making process for this application (Annexure C).

The aim of the CBA study was to determine the health costs associated with current emissions, health benefits associated with compliance to the new Minimum Emission Standards, and the direct and indirect costs of

compliance. The baseline scenario (S5) to determine the cost to health assumed no new abatement technologies would be installed, resulting in relative emissions being constant for each power plant.

The model estimated the increased exposure as a result of Eskom's emissions from the 13 power stations in 2018 would result in an additional 320 cases of premature mortality (assuming no new abatement technology implemented). To translate these health outcomes (cases of mortality) to a health cost, a Value of a Statistical Life of R53 million was attributed to each mortality, resulting in a R17.6 billion baseline health cost in 2018.

The outcomes of the analysis is that scenario 2, Eskom's proposed reduction plan and scenario 4, Eskom's proposed reduction plan plus decommissioning of Komati, Grootvlei and Hendrina had the best cost to benefit ratios with costs 1.8 and 1.3 times higher than the benefits. The full compliance option which would have most power stations retrofitted had the worst cost benefit ratio of costs 5.3 times higher than the benefits. The Eskom reduction plan with the addition of Kendal and Matimba FGD reflected costs 2.2 times higher than benefits.

Dispersion modelling of the current emissions for SO₂, NO_x and PM₁₀ from Arnot alone, indicates compliance with the relevant NAAQS for all averaging periods. Even if Arnot complies with the new plant NO_x MES, the reduction in NO_x emissions will make no material difference to the health risks posed by ambient concentrations. Implementation of the NO_x reduction technology will however inflate the cost of electricity, making it more unaffordable to poor communities who are typically exposed to elevated emission concentrations thereby curtailing access to one of the most potentially effective means of mitigating the current health risk. In cost-benefit terms the financial cost will result in no real benefit, and the financial cost will bring about potentially material negative social consequences in further hindering access to electricity.

In respect of SO₂ emissions the cost-benefit is more difficult to qualify. Although the risk of non-compliance with the NAAQS is generally low, stakeholders have presented that it is 'unacceptable to allow the continued emissions of large quantities of SO₂'. In principle this comment is accepted but again the argument is one of weighing up both the financial and non-financial costs of reducing those emissions. The argument has already been made that the water use implications of SO₂ control are untenable and that the cost benefit ratio does not support FGD as the best option to reduce the impact on health.

No argument is presented anywhere in these applications that reducing atmospheric emissions is not required. The argument is simply one of ensuring that emissions reductions are carefully planned and phased so that the associated cost-benefit is positive. A key consideration is that half of the existing Eskom power stations (including Arnot) will be shut down and decommissioned in the next 10 – 15 years significantly reducing the emissions. The planned offset project which will reduce low level emissions in communities in the vicinity of Eskom power station has not been studied long enough to conclusively provide cost benefit. However initial assessment indicates a significant reduction in exposure to indoor air pollution.

5.6 Project Planning and Delays

Emission retrofit of the type being planned require years of planning, which precede a lengthy installation process, as well as substantial capital funding and power station down-time. The planning process involves Eskom internal processes that allow for technology concept and -design approval after which significant funds need to be allocated to the project. Being a state owned entity, government approval for projects of such a nature is also required which lead to the additional project development time-lines. Contracts to commence the project are only put in place once carefully regulated commercial processes have been completed.

Over and above the aforementioned milestones, the actual commencement of the installation of the abatement technology at a unit needs to be carefully scheduled to fit into a six-month unit outage time, which is usually planned alternately for each unit (i.e. one unit per year) as part of an official longer term outage schedule. Once a unit is taken down for maintenance, it is not operational, and thus does not contribute power to the grid. Unit down-time needs to take into account fleet generation capacity and can only take place, if Eskom is sure the country's energy demands can be met. Once the pollutant specific abatement technology has been installed, it takes months for the relevant technology to function optimally (optimisation period), as test-runs and assessments take place to ensure the equipment functions to its design capacity (in this case for NOx and PM to meet 'new plant' emission standards). The optimisation period for FFPs is typically 9 months and the optimisation period for LNBS can typically take up to a year, emphasising that abatement technology installation completion does not automatically signify immediate full compliance.

The process to implement projects such as the emission retrofit projects is complex and there is a continual risk of delays affecting planned project completion dates. Notwithstanding implementing controls to reduce project delays such as high level project oversight and attempts to ensure the commercial processes are completed within reasonable timelines some of the retrofit projects have been subject to delays.

There were no emission reduction projects planned for Arnot in the past 5 years and as such no delays in implementation of station specific commitments have been experienced there.

A review of the process described above clearly illustrates that given the station will be decommissioned between 2021 and 2029 it is practically inappropriate to attempt further retrofits at Arnot.

6 PUBLIC PARTICIPATION

The requirement that the public participation process for this application follow the process specified in the NEMA Environmental Impact Assessment (EIA) Regulations. Eskom supports and aligns its public participation process with the requirements as stipulated within the NEMA EIA Regulations. The public participation process followed for this application has increased the number of public meetings to include communities in the vicinity of the power stations, in the case of Arnot meetings took place in KwaZamokhule and the town of Hendrina. With regards to the AEL variation request to be submitted, the public participation process undertaken meets the requirements of Section 46 of NEMAQA. For details pertaining to the public participation process, the reader is referred to Annexure D of this application.

7 EMISSION OFFSETS

Eskom is willing to implement emission offsets in areas where power stations impact significantly on ambient air quality, and where there is non-compliance with ambient air quality standards as a condition of an approved postponement. Eskom is of the view that in many cases household emission offsets are a more effective way of reducing human exposure to harmful levels of air pollution, than is retrofitting power stations with emission abatement technology. Emission retrofits at power stations also increase the cost of electricity, which may make electricity unaffordable for more people, resulting in an increase in the domestic use of fuels and a deterioration in air quality in low income areas.

Eskom has undertaken several feasibility and pilot studies (2011 – 2018) in KwaZamokuhle, a township near Hendrina Power Station to identify and test potential offset interventions. Based on the results of the studies conducted to date, it was concluded that ambient air quality in the affected communities could be improved by

replacing household's coal stoves with a hybrid gas electricity stoves and a LPG heater together with retrofitting the houses with a ceiling to insulate the houses.

The recommended Air Quality Offset intervention for the lead implementation (in KwaZamokuhle and Ezamokuhle) entails the following (Figure 2);

- **Provision of a basic plus retrofit which consists of:**
 - o Insulation entailing installation of a SPF ceiling system and draft proofing
 - o Electrical rewiring and issuance of Certificate of Competence (CoC).
- **Stove swap which entails:**
 - o Provision of electricity based energy source with LPG backup. This will include a hybrid electric gas stove, LPG heater plus 2x9 kg LPG cylinders and Compact fluorescent lamp (CFL) for energy efficiency lighting.
 - o Removal and disposal of the coal stove



Figure 1: Household Intervention for Lead Implementation Sites (KwaZamokuhle and Ezamokuhle)

The lead implementation in KwaZamokuhle and Ezamokuhle is planned to commence earlier in 2019. The large scale rollout of offset intervention is planned for 2019 to 2025.

8 CONCLUSIONS

Eskom is committed to ensuring that it manages and operates its coal-fired power stations in such a manner that risks to the environment and human health are minimised. As set out in the Constitution of the Republic of South Africa, there is the need to recognise the interrelationship between the environment and development. There is a need to protect the environment, while simultaneously recognising the need for social and economic development. There is the need therefore to maintain the balance in the attainment of sustainable development.

Arnot will be decommissioned between 2021 and 2029. Given this time frame it is not practically possible to install FGD on the station before decommissioning. In addition compliance with the new plant MES for SO₂ will result in additional environmental impacts in terms of water demand, increases in CO₂ emissions and waste production, and significant financial costs. The financial costs of compliance with the new plant MES will translate into an increase in the electricity tariff. If air quality is to be improved in surrounding residential areas then interventions should be geared towards limiting low-level (surface) emission sources of especially PM.

The Eskom Emission Reduction Plan will lead to a reduction in total emissions from several power stations specifically particulate emissions. Further six power stations (including Arnot) will be decommissioned by 2030 reducing the total load of all emissions in each of the three air sheds applicable to this application.

The impact of Arnot's emissions on ambient air quality has been comprehensively assessed. An analysis of ambient SO₂ concentrations measured at the KwaZamokuhle ambient air quality monitoring station indicates compliance with the 10-minute, hourly, daily and annual average NAAQS for SO₂ but non-compliance is evident in 2016 for daily SO₂ concentrations implying sustained, elevated SO₂ concentrations in the area. Ambient PM measured at the monitoring station indicates non-compliance with both the daily and annual NAAQS, but the contribution from Arnot Power Station to ambient PM levels is predicted to be small even considering the inclusion of PM_{2.5} formed through the conversion of SO₂ and NO_x. Arnot already complies with the new plant MES for PM.

Dispersion modelling of the current emissions for SO₂, NO_x and PM₁₀ from Arnot alone, indicates compliance with the relevant NAAQS for all averaging periods. However it is recognised that PM is already and unequivocally resulting in unacceptable health risk for a large part of the Highveld. The direct contribution of Arnot alone to that situation is considered to be small even taking into account predicted concentrations of secondary PM_{2.5}.

The Air Quality offset programme initiated by Eskom will continue to be implemented, based on current information Eskom believes this programme will reduce direct exposure to harmful indoor pollution and improve the quality of life.

Given that a revised National Framework for Air Quality Management and the Amendment of Listed Activities and Emission Standards were only published in October and there is a requirement to submit applications by 31 March 2019, Eskom will comply with this but reserves the right to submit additional information including additional modelling scenarios which assess the closure of the power station and any other aspects of significance.

Eskom believes given the motivation presented above in terms of Arnot already complying with the new plant emission standards for PM, its decommissioning plan, Eskom's complete emission reduction plan and its implications and the specific detail in respect of Arnot that the application for the suspension is appropriate and in line with the relevant regulatory and policy requirements and as such the application should be approved by the NAQO.