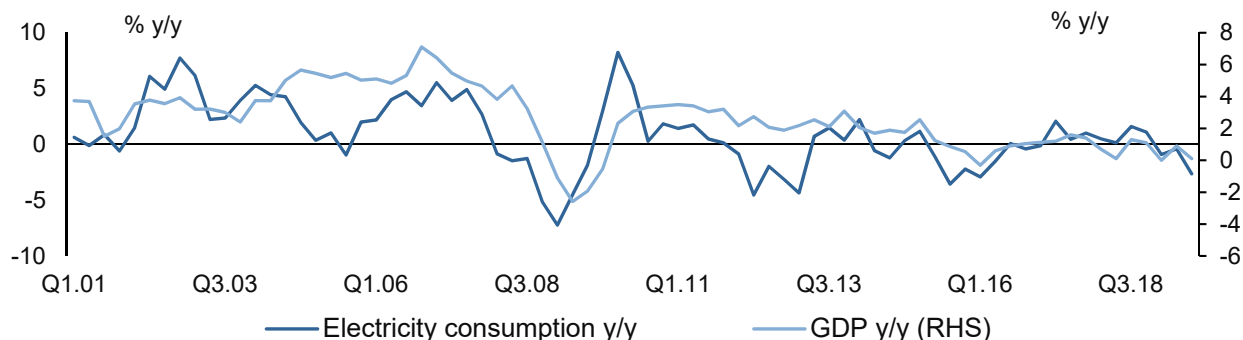


Electricity update: Total electricity generated and consumed fell by -1.5% y/y and -1.9% y/y respectively in 2019



6th February 2020

Figure 1: Electricity consumption vs economic growth (% change y/y)



Source: Stats SA

- Eskom is likely to once again be the main focus of next week's State of the Nation address (SONA) and thereafter, key in the Budget, scheduled for publication on 26th February.
- The struggling utility remains a significant drag on the fiscus and government guarantees on Eskom's debt is a major concern for rating agencies. Security of electricity supply is vital for the optimal functioning of the economy.
- Electricity production continued to decline in December, falling by a marked -4.0% y/y, underpinned by heightened rotational load shedding. This follows November's -2.8% y/y slide. Including December's reading, generation numbers were down -1.5% y/y for the year. Additionally, the volume of electricity consumed plunged by a further -4.9% y/y in December, its eighth consecutive decrease, culminating in a -1.9%y/y decline for the year.
- Eskom has implemented rotational load shedding (although only at stage 2, thus far), as it is in the process of replenishing its emergency reserves and conducting critical maintenance on its aging plants.
- CEO Andre de Ruyter recently reiterated the fact that "(o)ur generating infrastructure is constrained and unreliable," with load shedding over the next 18 months an increased possibility.
- Various new initiatives have been put forward over the past few days to deal with the electricity crisis.
- Energy Minister, Mr Mantashe recently expressed his partiality to the Dutch electricity model, which would essentially allow private producers into the national grid, while Eskom retains the transmission capability.
- In his opening address at the Cape Town Mining Indaba the Minister echoed frustrations around the current state of the domestic electricity industry. Mining companies in particular that rely heavily on stable, affordable electricity supply have suffered immensely from the effects of soaring electricity prices and supply interruptions. The Minister's announcement that they "(a)re in the process of gazetting a revised Schedule 2 of the Electricity Regulation Act; which will enable self-generation", was thus greatly welcomed by the mining community.

Figure 2: Electricity production and consumption (%)

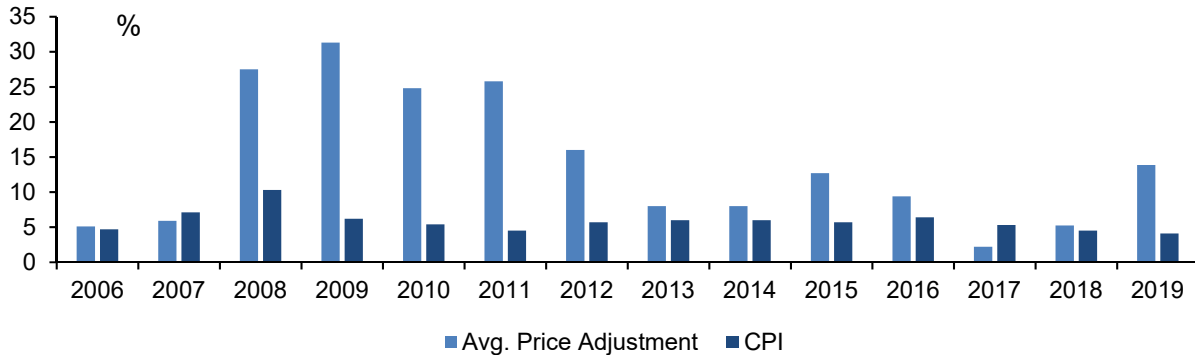
% y/y	2014	2015	2016	2017	2018	2019
Production	-0.5	-1.9	1.0	1.0	0.3	-1.5
Consumption	0.2	-1.3	-1.0	0.5	0.9	-1.9

Source: Investec, Stats SA



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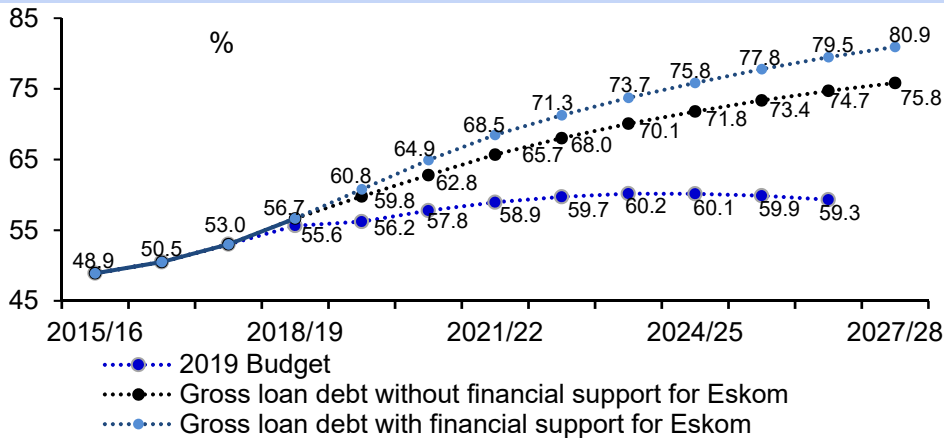
Figure 3: Eskom's average tariff adjustment



Source: Eskom, Stats SA

- Furthermore Cosatu has put forward a proposal at the recent National Economic Development and Labour Council (Nedlac) meeting, aimed at substantially reducing Eskom's spiraling debt. Specifically, it has recommended utilising funds from the Public Investment Corporation (PIC), the Development Bank of SA and the Industrial Development Corporation to slash Eskom's debt from R454 bn to R200 bn.
- A list of stringent conditions were however submitted by Cosatu, should the funding be approved, including no retrenchments of Eskom employees and the arrest and asset seizure of those who have been proved to have looted from the utility.
- Reducing Eskom's debt would allow the cash-strapped SOE to concentrate its resources on upgrading and maintaining its aging fleet, thereby reducing the possibility of supply disruptions. This would have immense spill-over effects for the domestic economy, boosting confidence and growth. Additionally, Government's exposure would be vastly reduced, decreasing ratings agencies concerns to an extent and limiting the possibility of a downgrade by Moody's to non-investment grade in March.
- Discussions around the various initiatives proposed for Eskom are ongoing, with further clarity likely to be provided in the SONA address and the budget.

Figure 4: Debt-to-GDP Outlook



Source: National Treasury

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