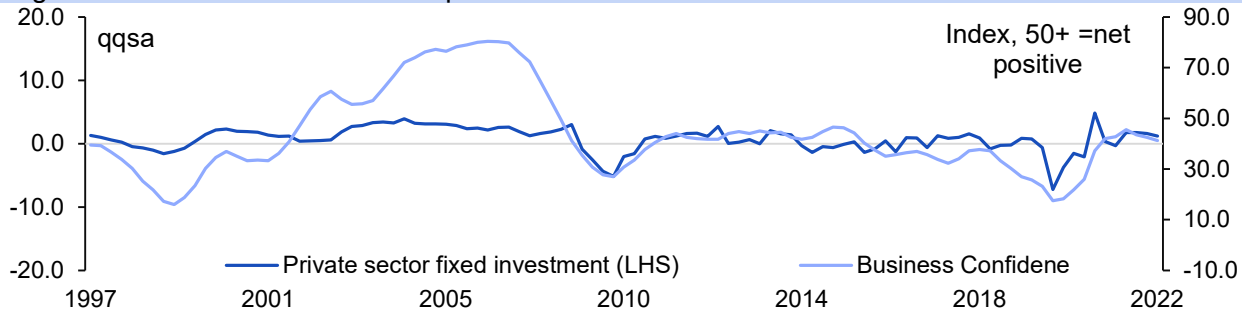




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Figure 1: Business confidence and private sector investment *



*4-quarter rolling average

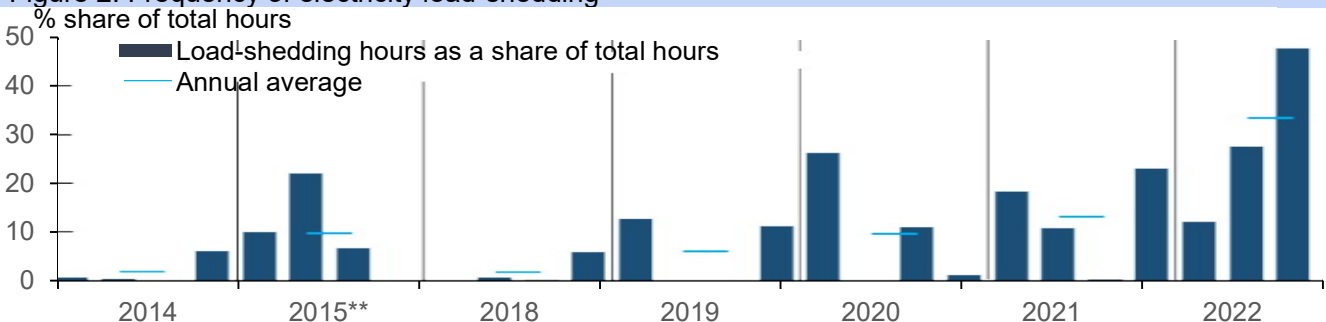
Source: BER, Stats SA, Investec

2023’s State of the Nation Address (SONA) was sober, highlighting the ongoing problems the country faces, and the hope SA overcomes them, with the President stating at the start of his address “at our most essential, (we are) a nation defined by hope and resilience”. He further said “(w)e are not presenting new plans, nor are we outlining here the full programme of government. Rather we are concentrating on those issues that concern South Africans the most: Load shedding. Unemployment. Poverty and the rising cost of living. Crime and corruption. There are no easy solutions to any of these challenges”. SA does want a workable plan (set of plans) for the multiple crises it faces, and the President outlined one (see figure 3) to address the energy crisis, operating under the parameters of a national state of disaster, but key will be the level of technical skills and experience deployed, with both the transmission and production capacity of electricity currently too weak.

The President has established The National Disaster Management Centre to centralise coordination through a single point of command, adding “(t)he state of disaster will enable us to provide practical measures that we need to take to support businesses in the food production, storage and retail supply chain, including for the rollout of generators, solar panels and uninterrupted power supply. Where technically possible, it will enable us to exempt critical infrastructure such as hospitals and water treatment plants from load shedding. And it will enable us to accelerate energy projects and limit regulatory requirements while maintaining rigorous environmental protections, procurement principles and technical standards”. Eliminating red tape and reducing the regulatory burden to sustainably end load shedding is key, as is oversight to prevent corruption, using the best expertise and skills. Prioritising the energy crisis to a national state of disaster is necessary.

The SONA noted interventions focused on climate change, poverty, unemployment, the water crisis, along with insufficient rail and port capacity, as well as support for SMME growth, improving skills/education and continuing the SDR – social relief distress grant. The SONA is comprehensive and positive in its messaging.

Figure 2: Frequency of electricity load-shedding*



Source: SARB Quarterly Bulletin Dec 2022

Note: *The annual average for 2022 includes data up to 31 October; **No load-shedding occurred during 2016 and 2017

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Figure 3: Action plan to address the energy crisis (shortfall of 4,000 to 6,000 MW)

Generation

- Eskom will procure emergency power that can be deployed within six months to close the immediate gap.
- Eskom fast-tracking construction of a temporary solution to bring back three units at Kusile power station whilst repairing the permanent structure.
- Investing in new transmission lines and substations, especially in areas such as the Eastern Cape, Northern Cape and Western Cape.
- This power will be in line with our diverse mix of energy sources, including our current coal-fired power stations, solar, wind, gas, nuclear, hydro and battery storage.
- Private developers to generate electricity - there are now more than 100 projects, which are expected to provide over 9,000 MW of new capacity over time.
- A number of companies that have participated in the renewable energy programme will soon enter construction and deliver a total of 2,800 MW of new capacity.
- The South African Police Service established a dedicated team to deal with the pervasive corruption and theft at several power stations that has contributed to the poor performance of these stations. Intelligence-driven operations at Eskom-related sites have so far resulted in 43 arrests.

Finance

- National Treasury is finalising a solution to Eskom's R400 billion debt burden in a manner that is equitable and fair to all stakeholders, which will enable the utility to make necessary investments in maintenance and transmission.
- Government will support Eskom to secure additional funding to purchase diesel for the rest of the financial year. This should reduce the severity of load shedding as Eskom will be able to use its diesel-run plants when the system is under strain.
- Programme to buy excess power from private generators and has already secured 300 MW from our neighbouring countries.
- In his Budget Speech, the Minister of Finance will outline how households will be assisted and how businesses will be able to benefit from a tax incentive. Proceed with the rollout of rooftop solar panels.
- National Treasury is working on adjustments to the bounce-back loan scheme to help small businesses invest in solar equipment, and to allow banks and development finance institutions to borrow directly from the scheme to facilitate the leasing of solar panels to their customers.

Repair and rebuild

- Steps to improve the performance of Eskom's existing coal fired power stations
- Eskom new board is deploying people and resources to improve the reliability of the six power stations that have contributed the most to load shedding.
- Rebuilding lost skills, already recruited skilled personnel at senior levels to be deployed at underperforming power stations. We have deep skills and expertise right here in South Africa – we just need to use them.
- The Engineering Council of South Africa has offered as much assistance as required by deploying engineers to work with the management teams at power stations.

Structure and management

- Restructuring of Eskom is proceeding, and the National Transmission Company will soon be operational with an independent board.
- Later this year, we will table the Electricity Regulation Amendment Bill to transform the energy sector and establish a competitive electricity market.
- To fully implement this plan, we need strong central coordination and decisive action. In a time of crisis, we need a single point of command and a single line of march.

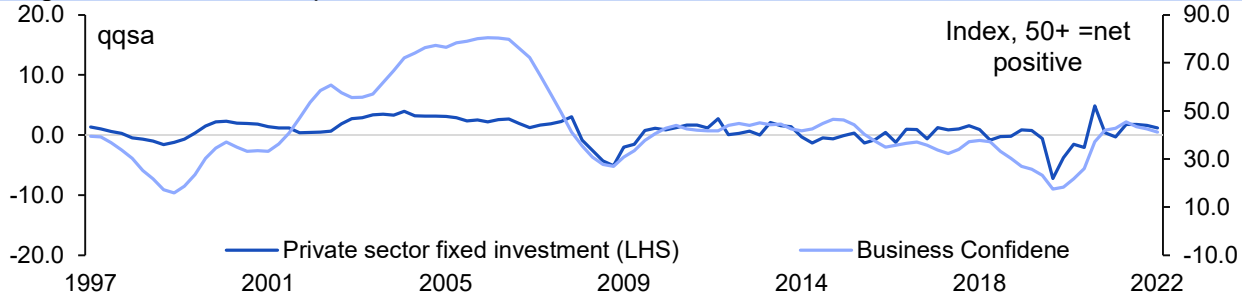
Source: The Presidency



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Figure 4: Gross fixed capital formation vs GDP

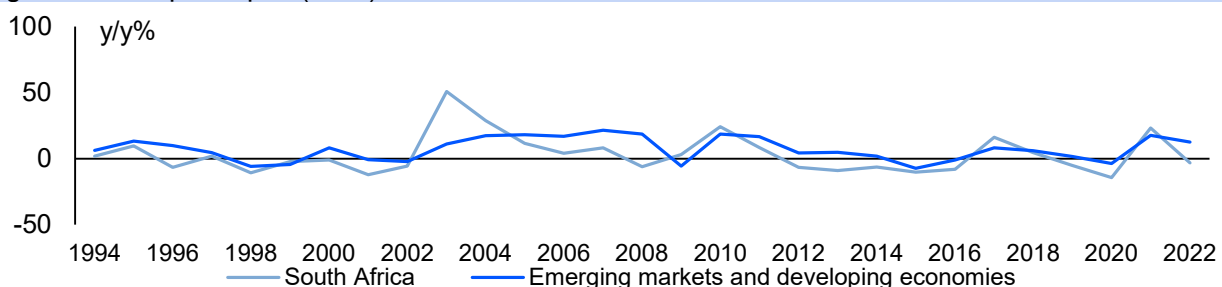


Source: Stats SA, SARB, Investec

However, many of the same topics of previous years were repeated in the SONA, stretching back to 2016 in table 5 on the next page, but many running longer than that. This year the President promised “(w)e will emerge from this crisis with an electricity system that is more efficient, more reliable and more competitive. We will emerge with ports and railways that again rival the best in the world, with broadband access for more South Africans in more parts of the country, and with a sustainable supply of quality water. We will welcome more tourists to our country, and develop and attract the skills our economy needs. We will create work for those who are unemployed, and give hope to those who have waited too long. With more police on the street, with functioning community policing forums and an effective and independent prosecution authority, our people will be able to count on the protection of the state. By fighting economic sabotage and organised crime, our infrastructure will be more secure and businesses will be able to operate more freely. Through a strengthened and expanded social protection system, fewer people will live in poverty and fewer households will experience hunger. We must do all of these things, not only to overcome our immediate challenges, but to renew the promise of South Africa. It is a promise that we have kept alive in our hearts and in our actions.”

South Africa’s slow, and often poor, implementation of its goals (promises) has been the key determinate of its weak economic growth rate, and hence of exacerbating unemployment. Last year’s SONA planned a comprehensive social compact to rebuild the economy and enable faster growth. This year’s SONA says “(w)hile we remain committed to forging a new consensus among all sectors of our society, we have also undertaken practical collaboration in specific areas. “The consensus approach has been slow to yield results, if at all for some, while state capture, corruption and wastages of state expenditure (including inappropriate expenditure) have not been eradicated. The state has numerous plans, insufficient delivery and a poor track record, making the state of disaster necessary. However, after over a decade of costly expenditure on electricity and a poor-quality result, markets fear additional cost and debt for the state, which will see a deterioration of state finances, and this has negatively impacted SA’s bond market and the rand has weakened in response.

Figure 5: GDP per capita (USD)



Source: IMF

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Figure 6: State of the Nation

| | | |
|---|--|---|
| <p>Feb 2016 - Zuma</p> <ul style="list-style-type: none"> > Fight back against corruption > Act against state capture > Improve education > Better life for poor > NHI, land reform <p>> Build capable state</p> <p>> Stimulate growth, save jobs</p> <p>> Reduce debt</p> | <p>Feb 2017 - Zuma</p> <ul style="list-style-type: none"> > Fight against corruption continues > Change institutions in economy > Change structure of economy > Change systems in economy > Change ownership of economy > NHI, land redistribution > Reignite growth and job creation > Education more accessible | <p>Feb 2018- Ramaphosa</p> <ul style="list-style-type: none"> > Investment drive > New growth path, jobs summit > Improve education, skills > Improve living conditions for poor > NHI, land expropriation > Fight gender-based violence > Strengthen capacity of state > Fight corruption, state capture |
| <p>Feb 2019 – Ramaphosa</p> <ul style="list-style-type: none"> > Economic transformation > Job creation, education > Skills, health, social wage > Spatial integration > Fight gender-based violence > Ethical capable state > Local government > Economy grows faster than population | <p>June 2019- Ramaphosa</p> <ul style="list-style-type: none"> > Transformation and job creation > Education, skills and health > Reliable quality basic services. > Land expropriation, spatial integration > Social cohesion, safety > Capable ethical state > A better Africa and world | <p>Feb 2020- Ramaphosa</p> <ul style="list-style-type: none"> > Infrastructure and Investment unit > Inclusive growth, create jobs > Improve education, skills > Improve living conditions for poor > NHI, land reform > Fight gender-based (GBV) violence > Strengthen capacity of state > Fight corruption, state capture |
| <p>Feb-2021 - Ramaphosa</p> <ul style="list-style-type: none"> > Fight corruption, strengthen State > Sustainable jobs, inclusive growth > Electricity / operation Vulindlela > Accelerate economic growth > Defeat COVID-19 pandemic > Infrastructure rollout, climate change > Industrialisation, localisation > Education, GBV, living conditions | <p>Feb 2022 - Ramaphosa</p> <ul style="list-style-type: none"> > Remove corruption, strengthen State > Localisation, reduce business costs > Red tape and regulation reduction > Infrastructure rollout, climate change > Electricity, water, rail, ports > Increased employment, growth > Increased private sector participation > Capable state, GBV, NHI, SDR, EWC | <p>Feb 2023 - Ramaphosa</p> <ul style="list-style-type: none"> > Resolve electricity crisis > Transnet Road Map > Focus on water security > Education, ECL, link skills to workplace demands > Continued investment push, drive growth and employment > Continue Social Relief of Distress Grant > Crime reduction (incl. corruption) > Strengthen local government capacity |

Source: SONA

Figure 7: Action plan to address the energy crisis (shortfall of 4,000 to 6,000 MW)

- First, fix Eskom's coal-fired power stations and improve the availability of existing supply.
 - Second, enable and accelerate private investment in generation capacity.
 - Three, accelerate procurement of new capacity from renewables, gas and battery storage.
 - Four, unleash businesses and households to invest in rooftop solar.
 - Five, fundamentally transform the electricity sector to achieve long-term energy security.
- Experts agree that this plan is the most realistic route to end load shedding.

Source: The Presidency July 2022

**Figure 8: Intervention 1****Fix Eskom and improve the availability of existing supply system stability and increase generation capacity**

- 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.
- Eskom will continue to implement reliability maintenance across its fleet during the next 12 months to prevent a further decline in its energy availability. This will be enabled by the recruitment of former Eskom staff and offers of support from the private sector, as well as improving the availability of spare parts and expertise from Original Equipment Manufacturers (OEMs) through more agile procurement.
- 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.
- We will use climate funding provided through the Just Energy Transition Partnership 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.
- Law enforcement agencies are implementing a coordinated effort to address sabotage, theft and fraud at Eskom.

Source: NECOM

Figure 9: Intervention 2**Enable and accelerate private investment in generation capacity**

- The raising of the licensing threshold from 1 MW to 100 MW has unlocked massive investment by the private sector. More than 80 projects are at various stages of development, representing over 6000 MW of new generation capacity. We are identifying those projects which are most advanced and ensuring that they obtain the remaining approvals as quickly as possible.
- Following the success of this reform, 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.
- A number of 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. This will require broad support from political parties, and a willingness to work together to address this crisis through extraordinary measures.
- In addition, 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.

Source: NECOM

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Figure 10: Intervention 3

Accelerate procurement of new capacity from renewables, gas and battery storage

- A massive rollout of renewable energy offers our best chance of ending load shedding as quickly as possible.
- 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.
- Preferred bidders from Bid Window 6 will be announced in October 2022 and will reach financial close in early 2023. The capacity procured through Bid Window 6 will be doubled from the current allocation of 2600 MW to 5200 MW.
- The release of further bid windows for renewable energy, gas and battery storage will be brought forward, and the amount of new capacity procured will be increased.
- 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.

Source: NECOM

Figure 11: Intervention 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 as a whole.
- 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

Source: NECOM

Figure 12: Intervention 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.
- 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

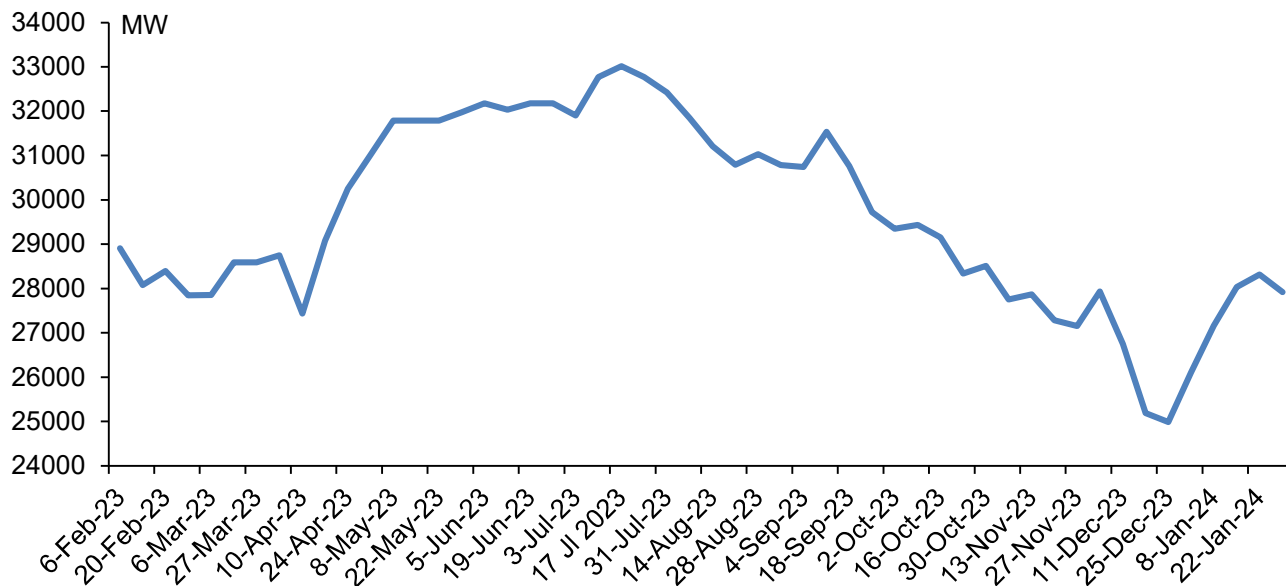
Source: NECOM



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Figure 13: Available generating capacity for 52 weeks ahead



Source: Eskom

Figure 14: SONA: why it matters



Source: The Presidency



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Figure 15: Outlook

| Week Start | Week | MW RSA Contracted Forecast | MW Residual Forecast | MW Available Dispatchable Capacity | MW Available Capacity (Less OR and UA) | MW Planned Maintenance | MW Unplanned Outage Assumption (UA) | MW Planned Risk Level (-15200 MW) | MW Likely Risk Scenario (-16700 MW) |
|------------|------|-------------------------------------|----------------------------|---|---|------------------------------|--|--|--|
| 06-Feb-23 | 6 | 30271 | 28379 | 44110 | 28910 | 5061 | 13000 | | |
| 13-Feb-23 | 7 | 30211 | 28351 | 43279 | 28079 | 5912 | 13000 | | |
| 20-Feb-23 | 8 | 30044 | 28255 | 43591 | 28391 | 5600 | 13000 | | |
| 27-Feb-23 | 9 | 29949 | 28218 | 43048 | 27848 | 6143 | 13000 | | |
| 06-Mar-23 | 10 | 30135 | 28567 | 43056 | 27856 | 6135 | 13000 | | |
| 13-Mar-23 | 11 | 30131 | 28563 | 43791 | 28591 | 5400 | 13000 | | |
| 20-Mar-23 | 12 | 30207 | 28589 | 43791 | 28591 | 5400 | 13000 | | |
| 27-Mar-23 | 13 | 29957 | 28310 | 43948 | 28748 | 5243 | 13000 | | |
| 03-Apr-23 | 14 | 29943 | 28296 | 42636 | 27436 | 6555 | 13000 | | |
| 10-Apr-23 | 15 | 30357 | 28711 | 44281 | 29081 | 4910 | 13000 | | |
| 17-Apr-23 | 16 | 31197 | 29550 | 44298 | 29098 | 4893 | 13000 | | |
| 24-Apr-23 | 17 | 31577 | 29931 | 45448 | 30248 | 3743 | 13000 | | |
| 01-May-23 | 18 | 31734 | 30552 | 46213 | 31013 | 2978 | 13000 | | |
| 08-May-23 | 19 | 34531 | 33349 | 46987 | 31787 | 2204 | 13000 | | |
| 15-May-23 | 20 | 34704 | 33522 | 46987 | 31787 | 2204 | 13000 | | |
| 22-May-23 | 21 | 35031 | 33849 | 47177 | 31977 | 2014 | 13000 | | |
| 29-May-23 | 22 | 35849 | 34667 | 47377 | 32177 | 1814 | 13000 | | |
| 05-Jun-23 | 23 | 35053 | 33773 | 47229 | 32029 | 1962 | 13000 | | |
| 12-Jun-23 | 24 | 35055 | 33774 | 47377 | 32177 | 1814 | 13000 | | |
| 19-Jun-23 | 25 | 34886 | 33605 | 47377 | 32177 | 1814 | 13000 | | |
| 26-Jun-23 | 26 | 35391 | 34110 | 47100 | 31900 | 2091 | 13000 | | |
| 03-Jul-23 | 27 | 35153 | 33662 | 47967 | 32767 | 1224 | 13000 | | |
| 10-Jul-23 | 28 | 35127 | 33636 | 48217 | 33017 | 974 | 13000 | | |
| 17-Jul-23 | 29 | 35242 | 33751 | 47970 | 32770 | 1221 | 13000 | | |
| 24-Jul-23 | 30 | 35288 | 33797 | 47622 | 32422 | 1569 | 13000 | | |
| 31-Jul-23 | 31 | 34476 | 32985 | 47047 | 31847 | 2144 | 13000 | | |
| 07-Aug-23 | 32 | 34154 | 32460 | 46407 | 31207 | 2784 | 13000 | | |
| 14-Aug-23 | 33 | 33807 | 32114 | 45991 | 30791 | 3200 | 13000 | | |
| 21-Aug-23 | 34 | 33730 | 32037 | 46229 | 31029 | 2962 | 13000 | | |
| 28-Aug-23 | 35 | 33641 | 31961 | 45984 | 30784 | 3207 | 13000 | | |
| 04-Sep-23 | 36 | 33478 | 31791 | 45940 | 30740 | 3251 | 13000 | | |
| 11-Sep-23 | 37 | 33126 | 31440 | 46731 | 31531 | 2460 | 13000 | | |
| 18-Sep-23 | 38 | 32252 | 30565 | 45963 | 30763 | 3228 | 13000 | | |
| 25-Sep-23 | 39 | 32248 | 30561 | 44925 | 29725 | 4266 | 13000 | | |
| 02-Oct-23 | 40 | 32438 | 30461 | 44545 | 29345 | 4646 | 13000 | | |
| 09-Oct-23 | 41 | 31837 | 29871 | 44635 | 29435 | 4556 | 13000 | | |
| 16-Oct-23 | 42 | 31305 | 29362 | 44351 | 29151 | 4840 | 13000 | | |
| 23-Oct-23 | 43 | 30945 | 29062 | 43538 | 28338 | 5653 | 13000 | | |
| 30-Oct-23 | 44 | 31008 | 29125 | 43708 | 28508 | 5483 | 13000 | | |
| 06-Nov-23 | 45 | 30887 | 28819 | 42952 | 27752 | 6239 | 13000 | | |
| 13-Nov-23 | 46 | 30757 | 28689 | 43065 | 27865 | 6126 | 13000 | | |
| 20-Nov-23 | 47 | 30574 | 28506 | 42482 | 27282 | 6709 | 13000 | | |
| 27-Nov-23 | 48 | 30527 | 28459 | 42355 | 27155 | 6836 | 13000 | | |
| 04-Dec-23 | 49 | 30584 | 28401 | 43132 | 27932 | 6059 | 13000 | | |
| 11-Dec-23 | 50 | 30003 | 27820 | 41939 | 26739 | 7252 | 13000 | | |
| 18-Dec-23 | 51 | 28902 | 26719 | 40390 | 25190 | 8801 | 13000 | | |
| 25-Dec-23 | 52 | 26884 | 24702 | 40190 | 24990 | 9001 | 13000 | | |
| 01-Jan-24 | 1 | 27954 | 25810 | 41203 | 26003 | 7988 | 13000 | | |
| 08-Jan-24 | 2 | 29548 | 27404 | 41303 | 26103 | 7888 | 13000 | | |
| 15-Jan-24 | 3 | 30300 | 28156 | 42362 | 27162 | 6829 | 13000 | | |
| 22-Jan-24 | 4 | 30273 | 28129 | 43230 | 28030 | 5961 | 13000 | | |
| 29-Jan-24 | 5 | 30490 | 28346 | 43512 | 28312 | 5679 | 13000 | | |
| 05-Feb-24 | 6 | 30730 | 28940 | 43121 | 27921 | 6070 | 13000 | | |

Source: Eskom

Note: This is the demand forecast vs available generating capacity for each week for 52 weeks ahead. Colour codes ranging from light blue (no shortage) to black (worse case) are used to indicate the absence or presence of a capacity constraint.

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