A Change of Seasons in the South African Energy Sector

In the world of energy in South Africa, it has very much been the winter of our discontent. Structural challenges laid increasingly bare in years past have grown to fault lines. Inertia is no longer an option: with the country's sovereign credit rating hovering precariously above junk status, we now know that collectively we just have to reinvent our electricity sector - and we have to get it right the first time. If electricity works, the economy has a chance to work and the Grim Reaper that is a further credit downgrade can be kept from the door. All the contraries are equally true, if we fail.

It might be useful to ask where we are, how we got here, where we should go and what the impact of our likely direction would be on renewable energy in general, and wind power in particular.

Where are we?

We seem to be in quicksand of a light variety. There is a chance to extricate, but continued inaction would certainly see us gradually slipping under. To be specific: Our national utility's balance sheet has been supported by the National Treasury to a total of approximately ZAR 350 billion. Eskom's cash flow shows another shortfall of over ZAR 200 billion in the next few years. We are critically short of electricity, with the reserve margin in low single digits. Medupi, the new mega-coal plant, is years behind schedule and somewhere between ZAR 50 and 100 billion over budget. Municipalities owe Eskom as much as ZAR 10 billion, a greater amount has been spent just on diesel for peaking plants in the past year, a similar amount is spent annually on the interest on the Medupi delays.

In terms of the fixed point of success that we can leverage off to extricate ourselves, the REIPPPP has been an extraordinary success, bringing tens of billions of private investment into renewable energy, procured increasingly at a lower cost than Medupi's new coal power (per unit of electricity). We know the private sector is willing and able to assist, and we know there are benefits for the country through zero opportunity costs for deployed capital and zero risk of cost over-runs. Moreover, the basis has been laid for the REIPPPP to be the thin edge of the wedge of the implementation of the National Development Plan and the philosophy of a Developmental State, with Government and private sector in partnership. Already the three rounds of the REIPPPP are set to see more than ZAR 11 billion being invested into local communities, more specifically into enterprise development ("ED") and socio economic development ("SED").

How did we get here?

The common thread is that we arrived in light quicksand by allowing competing visions to bring us to a point of standstill.

Many specific points can be raised. Some would say that we never implemented the vision of the 1998 White Paper on Energy. Never implemented the REDS. Never implemented the ISMO Bill. Failed in a series of procurement drives to pull in the private sector (PNCP, MTPPP, Base Load Programme, others), failed in our demand interventions (Solar water geyser rebate programme, Power Conservation Programme). It could be said that we failed to retain savings in years when Eskom was profitable or failed to adapt the economy to cost-reflective electricity prices. All these and other aspects played their respective parts. But ultimately, the quintessential problem was the same one that we find in the broader economy: The new political dispensation brought together a great many divergent and ostensibly opposing visions and value systems. The country had chosen peace over insurrection – this meant every voice needed to be heard and inaction was preferable to conflict.

The diversity is so rich that it is challenging to boldly embark in any policy direction while keeping everybody in support.

Where should we go?

Broadly, it is clear that the successes of the REIPPPP should be learnt from and should be duplicated as much as possible. This means continuing with the programme while potentially creating similar procurement programmes in additional and more conventional? technologies. The ED and SED spend should be monitored, optimised and duplicated into the future.

The elephant in the room will however toned to be addressed: Eskom and it financial position. There are three obvious solutions to the electricity crisis:

(i) A tariff increase. This is likely to be both very unpopular and very painful. Sectors like mining and agriculture employ large numbers of people and are very marginal at present. Raising the electricity price would impact on our competitiveness and might lead to job losses and even business closures. The irony is that tariff increases no longer necessarily equate to a (much needed) move to cost-reflective electricity prices, because prices have been inflated by very large cost over-runs in the new build.

(ii) A large equity injection into Eskom by Government. Investing between ZAR 50 billion and ZAR 200 billion into Eskom is unlikely to be attractive to Government. Especially as there is no guarantee that it would be the last such request.

(iii) Selling off Eskom's assets to other utilities. This solution is probably most attractive economically while being politically the least attractive. This is because it raises ideological questions around "privatisation" and similarly controversial topics.

How do we get there?

If it is true that the confluence of many voices and views is what has caused us to be marooned in light quicksand, it is likely that we will stay there if we choose either one of two ostensibly opposing routes: If we continue to want to accommodate everyone and offend nobody, we will stay where we are. And if electricity becomes a proxy Armageddon for those with ideological differences, opposition to any move will be fierce.

The challenge is therefore to do again what South Africans are very good at doing: Finding additional, lateral solutions that didn't seem obvious at first.

This may be easier than we think: The National Development Plan is broadly accepted and stands almost undisputed as a philosophical framework to guide our future development. It is clear there is a need for much greater urgency, for new ways of doing. It is clear that we want the Developmental State model and that government welcomes and indeed demands the participation of the private sector.

Already, renewable energy is the place where this model is finding its manifestation in rural development and community upliftment. Now we are challenged as the broader electricity sector to bring the private sector into the equation without triggering any of the sensitivities that emerge when ideology is at stake. We need some form of public-private partnership to take us forward, to pull us out of the quicksand, to succeed this winter of discontent with a spring of hope.

It is likely that renewable energy will be called upon to make the biggest contribution it possibly can. Wind energy will be a large component of the response.