

Budget 2016 suggests that energy isn't high on South Africa's agenda

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South African Finance Minister Pravin Gordhan delivered on Wednesday what many considered the most-important [budget speech](#) of President Jacob Zuma's administration.



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In setting out the profile of the country's economy, Gordhan said:

“ The Treasury currently expects growth in the South African economy to be just 0.9% this year, after 1.3% in 2015.

This reflects both depressed global conditions and the impact of the drought. It also reflects policy uncertainty, the effect of protracted labour disputes on business confidence, electricity supply constraints and regulatory barriers to investment. ”

It is clear with these remarks that electricity supply is a key factor to the country's future growth and investment. So, what is proposed to overcome this barrier and allow energy to contribute to economic growth rather than restrict it?

Compared to last year

The first sense from this year's budget is that little is proposed or even discussed relating to energy compared to last year. A preliminary content analysis of the speech shows that energy buzzwords were not a priority this time around:

- energy was used 12 times in 2015 and five times in 2016;
- electricity went down from 13 to three;
- Eskom (the state-owned electricity provider) went from being used five times last year to not at all this year;
- carbon tax went from three to zero; and
- nuclear increased from zero to one and renewable energy from one to three.

Does this mean that energy is not important anymore? Or is it the case that, for South Africa, energy is an issue that has been solved?

To the contrary, Gordhan said that Energy Minister Tina Joemat-Pettersson is overseeing the renewable energy, coal and gas Independent Power Producers Program. This program receives exceptional comments for its success.

The decision to include coal and gas in the program was first announced in the 2015 budget speech. Those results are discussed in the estimates of the 2016 National Expenditure [report](#):

“ *In support of its commitment to introduce independent power producers, at the end of March 2015 Eskom had contracted capacity of 5701 MW from independent power producers. It plans to deliver an additional 11,126 MW of capacity into the system, which will go a long way towards addressing the current constraints. Medupi unit six achieved a full load of 800 MW following its first synchronisation in March 2015, and became commercially operational in August 2015. The synchronisation of the first two units of the Ingula pumped storage scheme is anticipated to take place in 2016, as this is the key delivery milestone for the build program in 2016-17. Once completed, Medupi and Kusile will contribute 9564 MW of base load power to the grid, and Ingula will provide 1332 MW of peaking capacity.* ”

Based on these developments, energy investment will amount to R70bn this year and will be more than R180bn in the next three years to support the completion of the three power plants.

But the big news is that Gordhan expressed the Treasury's view and desire to manage the 9600MW nuclear energy new build program. This came after Zuma's reassurance at the State of the Nation 2016 that the nuclear option is going to be pursued only upon careful consideration of its [affordability and careful planning](#).

Gordhan explained that Joemat-Pettersson has the Treasury's full support to investigate the inclusion of the nuclear program in the country's independent power plans. Additional funding of R200m in the nuclear energy program has been made available in 2016-17 for transactional advisors and consulting services.

This announcement is a relative reassurance to investors in South Africa's nuclear future. It has been negatively portrayed in doubtful deals and corrupted stakeholders. But this is actually an indication of the government's plan to invest into furthering co-operation between the private and public sector in the energy market.

Gordhan mentioned this by saying that energy, transport, telecommunications and urban development are all opportunities for joint public and private investment and facilities management.

Energy analysts were left disappointed by the lack of discussion of the carbon tax. 2015's speech claimed that the tax would be introduced in 2016 as an important intervention tool to improve energy efficiency.

But on the topic of tax-interventions, last year a temporary increase in the electricity levy of 2c/kWh was proposed. The explanation was that the additional charge would be withdrawn when the electricity shortage would be over.

Gordhan mentioned nothing about either of these.

From an energy point of view, Gordhan did not impress. The lack of information and specific planning, as well as vague

proposed ways forward with regard to nuclear energy, characterised the speech.

The general feeling, in comparison to the 2015 speech, is that energy may have lost its priority place in the government's agenda. Only time will tell if that was an indication of a perceived stability in the sector or that other issues are more pressing this year for South Africa.

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