

NATIONAL ASSEMBLY
QUESTION FOR WRITTEN REPLY
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1207. Dr D T George (DA) to ask the Minister of Finance:

Whether the National Treasury has modelled the impact of the electricity supply constraint on (a) mining and (b) manufacturing (i) output and (ii) exports; if not, why not; if so, what are the relevant details?

NW1413E

REPLY:

Yes, as outlined in Chapter 2 of Budget 2015, the National Treasury forecast explains the impact of the current electricity constraint on output. It highlights that the major revisions to overall GDP growth and exports for 2015 and 2016 are driven by the current electricity challenges. The impact on the mining and manufacturing sectors is projected to be negative and reflect the decline in electricity production. There are, however, some challenges with estimating the precise impact. These include:

- Load shedding and load curtailment has been far lower than initially anticipated at the time of the budget. A combination of factors has contributed to this – including depressed global economic conditions (particularly for commodities) and the faster than anticipated reduction in unplanned outages (return of critical plant) or partial load loss incidences.
- Households tend to be affected more often by load shedding than firms as the first stage of reducing demand requires that electricity supply is cut to residential areas. This reduces the impact of load shedding or curtailment on the mining and manufacturing sectors.
- **Commodity price movements** - commodity prices have declined both in dollar and rand terms and are affecting negatively the performance of the mining sector. Some smelters have been willing to sell back electricity because the current commodity prices and demand are not favourable for production. At this point, it is difficult to distinguish between lower production due to lower commodity prices, rescheduled maintenance of plant (brought forward) and lower production due to electricity shortages.
- **Ability to shift production to the early hours of the morning** - while there are electricity shortages during the late afternoon and early evening, the available capacity is sufficient to satisfy demand in the early hours of the morning. Companies, which can shift production from peak demand periods to off-peak periods, may be able to offset production losses due to load shedding or load curtailment.

- Most of the electricity intensive firms have been load curtailed rather than load shed. This reduces the negative impacts associated with electricity shortages. Some companies have been effective in managing load curtailment so that the impact on production has been minimal. In other cases firms have had to completely stop operations. There have been only a few instances of stage 3 load shedding with load curtailment levels of 20% since the beginning of the year. Many energy intensive firms appear to be able to accommodate a 10% load curtailment level but extended periods of greater load curtailment levels result in backlogs and reduced output.
- **Planned versus unplanned load shedding** - planned load shedding tends to have a much smaller economic impact than unplanned load shedding. Eskom has been effective in informing firms of possible load shedding, which has reduced some of the economic cost of stoppages. However, load shedding has not been planned far enough in advance to completely reschedule.
- **Eskom versus municipalities** - generally large electricity intensive firms are supplied directly by Eskom. There are many firms, however, which are supplied directly by municipalities. There are some challenges identifying whether firms supplied by municipalities have been affected more negatively than firms supplied by Eskom.
- **Sharing of information** - companies are generally reluctant to share information on how they are affected by the electricity shortages.