New tax incentives are a welcome boost to solar in SA, but do they go far enough?

By Matthew Cruise

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In the wake of February's State of the Nation Address and the subsequent Budget Speech, it's become clear that the South African government has finally realised something that most people in the sector have known for a long time. That is, providing meaningful incentives for companies and households to install solar power (with the eventual aim of feeding back into the grid) is, in fact, very cost-effective.

Matthew Cruise, head of business intelligence at Hohm Energy

Once fully implemented, the new tax incentives will allow businesses to reduce their taxable income by 125% of the cost of an investment in renewables. Domestic users, meanwhile, will be able to claim a rebate of 25% of the cost of rooftop panels, up to a maximum of R15,000.

While these incentives are undoubtedly important and a step in the right direction, it’s worth asking whether they go far enough. If we truly are to turn as many businesses and households as possible into power producers, are more incentives needed?

A disastrous state of affairs

In order to answer that question, it’s worth reminding ourselves just how bad load shedding has gotten. You might, for instance, be aware of the fact that South Africa experienced 200 days of load shedding in 2022, eclipsing the previous record by some distance. But that doesn’t tell the full story.

Things appear even more dire once you start looking at the gigawatt-hours that were shed through the course of the year. Once you do that, it becomes apparent that South Africa shed almost five times as much electricity in 2022 as it did in 2021 (already a record year in and of itself).

Also of huge concern is that the higher stages of load shedding can cost the economy around R1bn a day. That means that in a year like 2022, hundreds of billions of rands were lost to the economy. Given the country's well-publicised growth struggles over the past decade or so, along with its unemployment crisis, it's clearly an untenable situation.

Eskom's chairman, Mpho Makwana, recently asked South Africans to prioritise installing solar on their roofs and use as little of Eskom's products as possible. This is indicative of the state of Eskom going forward, as it is commentary that is coming from the very top of Eskom.

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The power of incentives

It should be clear then that unless the incentives cost South Africa more than R200bn (something that's highly unlikely to be the case), they're worth it. We also know that the right incentives can dramatically change a country's energy prospects.

Vietnam, for instance, added more than 9GW of rooftop solar in 2020 alone, representing a 25-fold increase in solar-generating capacity. That is equivalent to nine stages of daytime load shedding and more than the combined output of Medupi and Kusile power stations, once they're completed (something that won't happen for some time). Other countries and regions that have accrued similarly powerful boosts by incentivising solar are Germany, California, and South Australia.

But there's an important difference between the incentives those countries provided and the ones offered up in the Budget Speech. In addition to tax incentives, almost all of those markets offered attractive feed-in tariffs. Those tariffs mean that anyone who's installed solar panels can earn money by feeding energy back into the grid.

To date, the only government of any level to indicate that it'll provide such tariffs is the City of Cape Town. If the national government is really serious about using solar to turn South Africa's energy fortunes around, it'll have to find ways of offering similar feed-in tariffs.

Potential funding avenues

One potential avenue for that is to redirect a portion of the R6.12c it takes from every litre of diesel bought in the country. Of course, some in government might be reluctant to do so. Apart from a few notable exceptions that benefit from the diesel

fuel levy refund, those taxes effectively represent a boost to government coffers every time someone buys fuel for their generator. That's nothing, however, compared to the boost that it would get from the economic growth and job opportunities that would result from widespread solar installations.

There is, however, another potential avenue. The State of Disaster regulations, now gazetted, allow for net metering. That's a system which essentially credits solar energy system owners for each kilowatt-hour unit of electricity they add to the grid. So, if such a user were to still use more municipal power than they feed back into the grid, they'll get a substantial discount (importantly at a higher rate than they'll get from a feed-in tariff). It's also an option that immediately allows ordinary homeowners and businesses to feed back into the grid without having to install expensive smart meters and the like.

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More needed, quickly

While the solar tax incentives should undoubtedly be welcomed, it's also clear that more needs to be done. Unless funding is found for the feed-in tariffs that have worked so well for other countries and regions, the impact of the current incentives will be limited at best.

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