

# **NERSA PUBLIC HEARING :**

## **23 January 2019**

### **MYPD 4**

**RCA 17/18 and Price determination 19/20, 20/21, 21/22**

### **NICOL JANSEN**

### **PRESIDENT : AGRI NORTHERN CAPE**

# Outline

1. Agri NK – who we are
2. Introduction statements
3. Economy of the Northern Cape
4. Agriculture outlook
5. The Eskom story
6. Proposals
7. Closing remarks

# Agri Northern Cape

- Agri Northern Cape is a provincial affiliate off **Agri SA**.
- AGRI Northern Cape is a **member organisation** for the farmers, small scale as well as commercial, and for companies in the agricultural value chain.
- We have **3 540** fully paid members as well as **7 commodities** and **9 agricultural businesses** affiliated.
- Agri NK is committed to the **development of agriculture** in the Northern Cape Province in South Africa. We're a non-profit organisation that is helping to **develop** a stable, profitable agricultural environment within the province.
- Agri Northern Cape is committed to, true to its mission, as an organization by **dynamic service** and **credible actions** to promote the welfare of its members sustainable in harmony with the environment and people in dependency of the High Hand.

# Introduction Statements



- Agriculture is dependent on electricity, **irrigation** give stability in food production – this is so clear in drought situations.
- **Cold chain** – indispensable in production of fruit, vegetables, meat etc.
- Agriculture is responsible for the country's **food security** – can't take Eskom crisis lightly.
- Agriculture are not ignorant towards Eskom's financial challenges.
- Agriculture must take their own financial wellbeing in consideration – very important sector.
- Highly concern about the cost of electricity, above inflation increases and the financial impact there of.

# The economy of the Northern Cape

- Mostly dependant on agriculture
- Large agricultural intensive irrigation area
- The largest labour market – irrigation
- The largest commodity in the intensive irrigation area - grains
- Yellow maize and wheat - main crops.

# Agriculture outlook since 2018

- Drought throughout the province has intensify
- Financial wellbeing has worsen
- Outlook and forecasts for rain is below normal
- Already pass halfway off rainy season
- 2019 follows on back of financial strained 2018
- Debt of agriculture in Norther Cape is on the rise

# Energy Increase 2008-2022

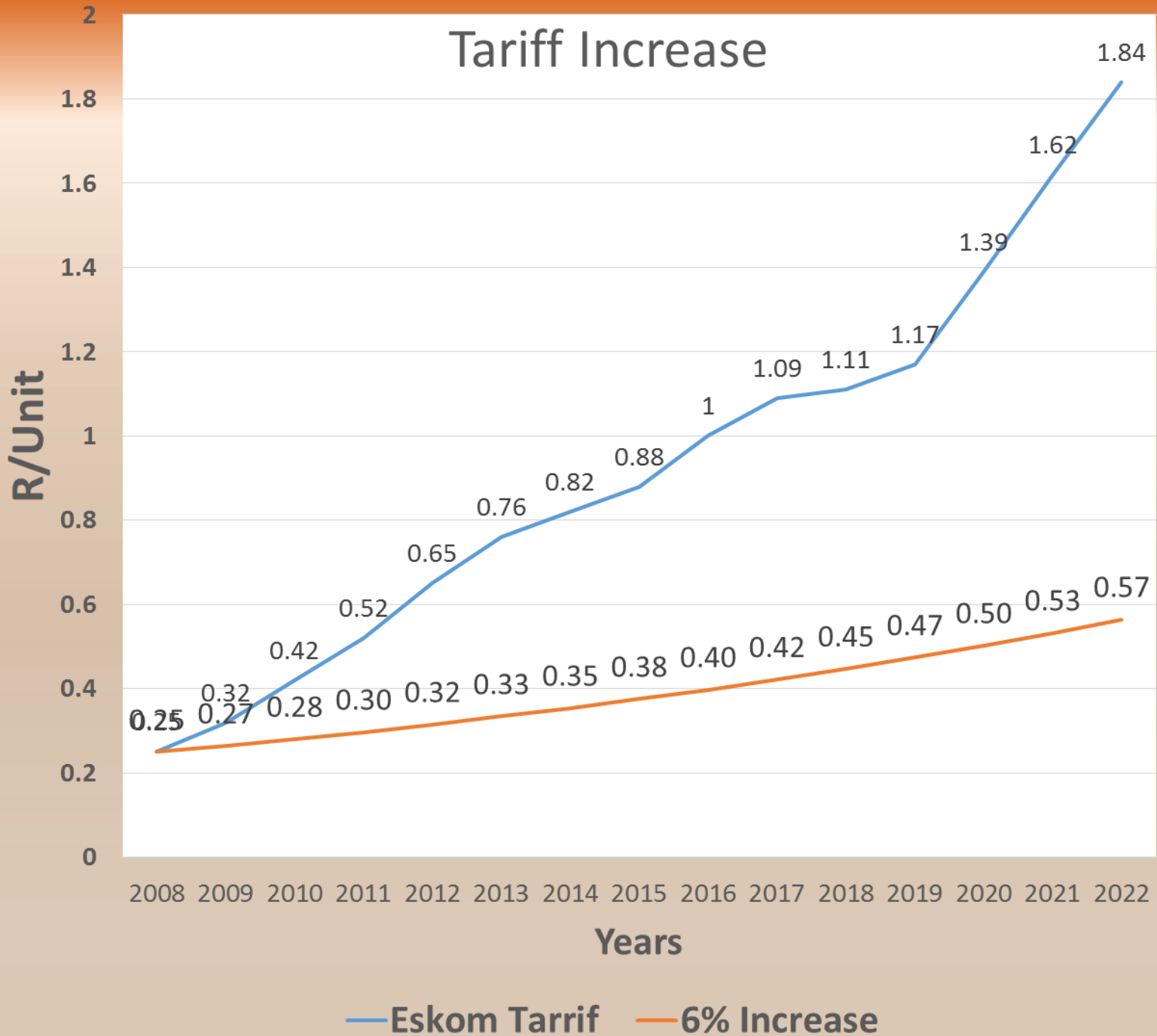
Koste/eenheid	% Verhoging	Verhoging	Nuwe tarief	
	<b>Jaar 1</b>	<b>2008/09</b>		
R 0.25	27.5%	R 0.07	R 0.32	
	<b>Jaar 2</b>	<b>2009/10</b>		
R 0.32	31.3%	R 0.10	R 0.42	
<b>MYPD2</b>	<b>Jaar 1</b>	<b>2010/11</b>		
R 0.42	24.8%	R 0.10	R 0.52	
	<b>Jaar 2</b>	<b>2011/12</b>		
R 0.52	25.8%	R 0.13	R 0.65	
	<b>Jaar 3</b>	<b>2012/13</b>		
R 0.65	16.0%	R 0.10	R 0.76	
<b>MYPD3</b>	<b>Jaar 1</b>	<b>2013/14</b>		
R 0.76	8.0%	R 0.06	R 0.82	
	<b>Jaar 2</b>	<b>2014/15</b>		
R 0.82	8.0%	R 0.07	R 0.88	
	<b>Jaar 3</b>	<b>2015/16</b>		
R 0.88	12.7%	R 0.11	R 1.00	
	<b>Jaar 4</b>	<b>2016/17</b>		
R 1.00	9.4%	R 0.09	R 1.09	
	<b>Jaar 5</b>	<b>2017/18</b>		
R 1.09	2.2%	R 0.02	R 1.11	
<b>ONE YEAR</b>	5.23%	<b>2018/19</b>	R 1.17	Base Year
RCA 14/15	4.10%	<b>2019/20</b>	R 1.22	
RCA 15/16	4.10%	<b>2020/21</b>	R 1.27	
RCA 16/17	4.10%	<b>2021/22</b>	R 1.31	R33 Billion
<b>MYPD4, RCA 17/18</b>	19.10%	<b>2019/20</b>	R 1.39	
	19.10%	<b>2020/21</b>	R 1.62	
	19.10%	<b>2021/22</b>	R 1.84	

# Calculated price increase over 10 and 14 years

Timeline	Years	Cost per Unit	Cost per unit	%	Average
		2008	2022		per year
2008 - 2022	14	R 0.25	R 1.84	636%	45.43%
2008 - 2018	10	0.25	1.11	344%	34.40%



# Tariff Increase



# What did Eskom do with 334% increase, what have changed

- Eskom installed capacity 2008 - 38 747 MW
- Eskom installed capacity 2018 – 45 561 MW
- Increase 17%, only 30 000 MW reliable (FINWEEK James-Brent Styan)
- Eskom Debt 2008 – R51 Billion
- Eskom Debt 2018 – R419 Billion, R 368 Billion last Year (R52)
- Increase – 721%, R37 Billion/Year average
- Debt raised with R368 Billion for 7 000MW
- Standard and Poor's grading – A1 drop to CCC+
- Doesn't make economical sense
- Doesn't speak of proper financial management, not sustainable business plan

# Continue.....

- Eskom personnel 2008 - 32 954
- Eskom personnel 2018 – 41 316 Excl. ROTEK
- Increase 25%
- Personnel expenditure 2008 R 10 billion
- Personnel expenditure 2018 R 24 Billion
- Increase 140% on salary account to manage 17% more installed generating capacity and still have a lack of expertise and skills for proper maintenance
- So Eskom ends up with too many personnel, pay too much for them and have a lack of skills
- This business model asks the public for 15% increase on top of already approved 4% = 19%

# Result of tariff increases

- Energy sales 2008 – 218 000 GwH
- 2018 – 214 000 GwH
- Did not take Eskom forward, capacity or efficiency
- Business model not suitable for sustainable energy generation and supply for next 30 years
- Nothing change – business model, management (need 15% over 3 years to realize R50 Billion loss) (Bloomberg)
- Contradicted tot Eskom figures - Why RCA
- Graphic of price will keep increase without any results
- Predicted point of no return within 3 Years - R650 Billion debt (Phakamani Hadebe), already 72% Dept ratio

# The scenario around Eskom

## Business model

1. The past 10 years - MYPD and RCA proses – Above inflation increases - 344% 10 years – 35% per year
2. No change in business model – no outlook for inflation related increases for next 10 years
3. No long term solution – no restructure planning, business as usual
4. Improved technology available to the consumer as power source – more difficult for Eskom to compete cost effective
5. Some consumers have alternatives via technology, especially within municipalities (Use Eskom as standby)
6. The problem is intensifying – tariff increase not the answer

# Question!!!!!!

- Who is the prime customers of Eskom?
- Regular payments, no in arrears
- Use huge quantity's of energy
- Expansion opportunity's

Do Industry's, Factory's, Richer Suburbs Qualify?

Compare with..

- Soweto, also Eskom client.

With increasing tariffs, who are more capable of independent off grid solutions?

What will Eskom client profile look like within 10 years with this pace of tariff increases.

# What need to be done

- Be brave enough to implement the hard, unavoidable business dissensions – no choice
1. Clean Eskom off corruption unforgivingly
  2. Regain losses
  3. Stabilise debt – Eskom will ruined SA financially
  4. Stop capital spending – Medupi (3), Kusile(1)  
Eskom blow his change, Eskom failed
  5. Stop trying tot correct R1,5 Billion design flaw
  6. Sort coal contacts out on business principals, not political goals

# Continue....

7. Adapt legislation to allow private investment – full generation space and shortage with private capital expenditure and investment
8. Smaller employee corps, skills enriched
9. Employer certainty to core personnel
10. Independent grid
11. Implement recommendations of President Ramaphosa's panel
12. No more tariff increases – suicide for Eskom
13. Allow private economy, investment friendly environment



# Eskom's Arguments

- Lowest energy cost in Africa – No Argument to those who can't afford
- Zimbabwe example - Quote: "Mnangagwa het Woensdag in Moskou die verhoogde brandstofpryse verdedig, en gesê die prys in Zimbabwe is van die laagste in die streek."



- SA agriculture compete with USA, Europe, China, Japan, East block country's

# The sooner the better..

- Eskom management must recognise that it is the end off the road for Eskom in his current form
- Eskom can deld better with employee challenges with R419 Billion debt than R650 – Cant wait
- Alternative energy generation and storage solutions improves year on year – competition with Eskom who suffocates in debt
- SA economy and world tendency's, public demand and protest, will force DEO to legislative adjustments to allow alternatives – Eskom's monopoly not sustainable

# Conclusion



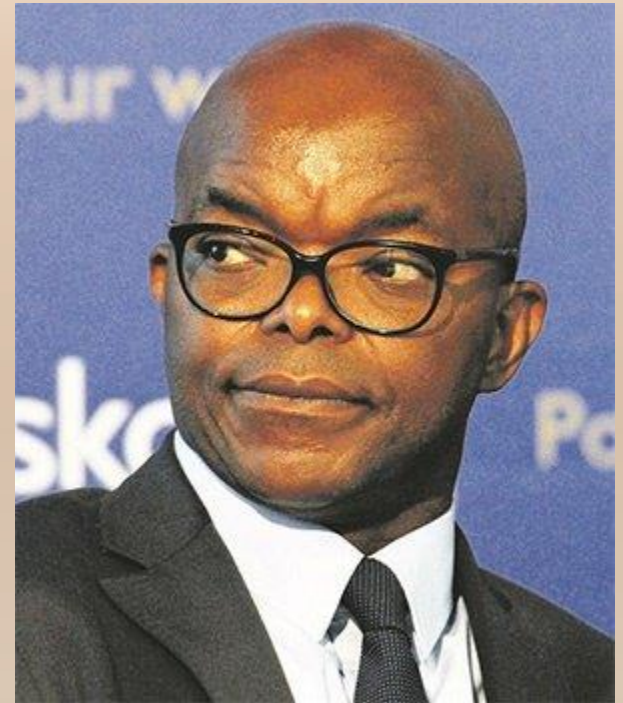
- **Agricultural sector will be severely strained by further increases**
- The pressure on economics of cash crops - lead to shift to perennial crops like Pecan Nuts in Northern Cape
- The Lower Orange River produce mainly for export market, table grapes, wines, raisins, pecan nuts
- Also lead to a decrease in permanent labour and the production of grains
- Cost of energy is a contributing factor for the change in the composition of the food basket of SA
- Produce more for the export market, less for local market – constrain food security

# Denial.....

Foto: Felix Dlangamandla



Phakamani Hadebe, CEO Eskom,



**Only half a million Rand for a seat at dinner table!!!!!!**

(Bonolo Selebano)  
Qaanitah Hunter  
@QaanitahHunter  
#ANC107

# Thank You

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