

NERSA: ESKOM'S MYPD3 RCA YEARS (2017/2018)

APPLICATION AND MYPD4 APPLICATION FOR THE 2019/20 TO 2021/2022

FINANCIAL YEARS

1. INTRODUCTION

Agri Western Cape is an Agricultural Association representing commercial farmers in the Western Cape. Our member base consists of approximately 4 000 producers farming in 19 regions; 100 Agricultural Associations and 26 agricultural commodities.

Via our policy committees, we represent our members in all policy matters in all tiers of government. Our five policy committees cover natural resources, rural safety, commercial matters, labour and social welfare and transformation.

Today's presentation resorts under our Commercial Policy Committee that strives for sustainability and profitability in the agricultural sector.

2. WHY ARE WE HERE TODAY?

NERSA received Eskom's MYPD4 application totalling R219bn, R252bn and R291bn for the 2019/20, 2020/21 and 2021/22 financial years respectively, on 14 September 2018. Stakeholders and affected parties, including those in the agricultural value chain like Agri Western Cape, were requested to submit comments regarding the impact of the power utility's requested price increases on the Agricultural sector. There is an inextricable link between the financial sustainability of Eskom and the economy as a whole, particularly as represented by Eskom customers. Agri Western Cape welcomes the opportunity to comment on Eskom's application.

3. THE IMPORTANCE OF AGRICULTURE IN ABOVE DEBATE

- The Western Cape has the most diverse agriculture sector in the country with Horticulture, Agronomy and Livestock fields.
- Agriculture creates a substantial demand for goods and services, especially in the rural areas.



- The impact of Agriculture on other sectors in terms of forward and backward linkages is considerable.
- The impact of sustainable electricity supply on irrigation agriculture, the cold chain for perishable products and milk production is crucial. The cold chain's requirements on export standards must be maintained to protect our international markets.
- About 70% of agricultural output is used as intermediary products in other sectors.
- Agriculture and agro-processing absorb 22% of the workforce in the province. (71% unskilled, 25% semi-skilled, 4% skilled).
- Agriculture in the Western Cape employs \pm 20% of the national agri workforce, the largest in relation to other provinces due to labour intensive agricultural enterprises in the Horticulture industry and the related demand for both permanent and seasonal labour.
- Agriculture and agro-processing in the Western Cape are responsible for 45% of all exports and 25% of South Africa's food supply is produced by irrigation-reliant and energy-intensive industries.
- The Western Cape agriculture sector represents R54 billion of gross value addition.

4. IMPACT ON AGRICULTURE AND FOOD SECURITY

- Eskom has, from as early as the AgriLek era, been a strategic partner in Agriculture from farm to fork, not only in production and processing, but also in securing power input for security systems that support Rural Safety, a major crisis at present.
- The proposed revenue application will definitely have a major negative impact on Agriculture's sustainability economic survival. Serious consideration should be given to food security that meets the dietary requirements of all South Africans. Agriculture supplies the Bio-fuels for our body.
- The current climatic conditions, water restrictions, rising input cost and the exchange rate on agri inputs have a severe impact on agriculture.
- Sharp increases in electricity costs as suggested will put agriculture's cashflow under pressure, as electricity cost is a major variable cost contributor. Remember, Agriculture is a price taker and does not have the luxury of a regulator clearing account such as Eskom to make good on revenue losses.



- Effectively, agriculture will be hit by a double increase in electricity and an increase in line costs. The effect of this will force the industry to research and develop more cost-effective forms of power supply to take the farms off the grid. We are aware of wine cellars that are far advanced in solar power to alleviate the current electricity cost and the negative effect of load shedding.
- The constant threat of load shedding, especially during agriculture's peak production season, will have a devastating effect on irrigation and the cold chain. The Agricultural producer carries this loss of reduced income and probable loss in export market share.

5. GOVERNANCE AND VIABILITY CONTEXT

The taxpayer's money is wasted in a time where the South African economy and SOE's, of which Eskom is one, is facing serious challenges. Rumoured irregularities and the lack of corporate governance harm the public perception and trust.

The question that needs to be asked, is why the Department of Energy, NERSA, the Portfolio Committee on Energy and State Enterprises, Parliament and Cabinet did not intervene to protect South Africa's growth and our wellbeing from this disaster.

Consumers and business fund the Government via taxes, so government funding is obtained from the taxpayer. The government guarantees are on the back of the taxpayers' money. Now we must fund Eskom with an increased tariff, which is not affordable.

Eskom explicitly admitted they are in financial distress. Clearly the present situation calls for strategic intervention and reform to survive. Eskom should not be allowed to transfer the costs of their mismanagement to the consumer.

Agriculture is a price taker industry with no government support. Constant increases above CPI as suggested, will weaken agriculture's profitability further. Higher electricity tariffs will force the agriculture industry to look at alternatives. Eskom's customer losses will result in higher unit costs for the few that will have to pay it.



Over time Eskom has managed itself into a death spiral where its price structure reduces demand and even higher price increases are required to support revenue needs. This is a no-win situation.

6. RECOMMENDATIONS

- NERSA, Government and Parliament should give serious consideration to life after the current Eskom. The current situation is not sustainable.
- Things never change by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.
- Serious consideration must be given to sell off a portion of Eskom to create a Public Private Partnership.
- The monopolistic stronghold that Eskom has over the power supply chain must be terminated. Competition has never been bad for any industry.
- Eskom should be much more lenient to IPP's. Agriculture can then establish electricity farms to support the current electricity grid with more economical and favourable unit costs and decrease the risk of Eskom's current unstable supply.
- Also, agriculture producers are currently being penalised for channelling electricity to the grid and Eskom should give urgent attention to this.

7. CONCLUSION

The problems at hand with respect to Eskom and the concomitant MYPD4 application are clearly multi-dimensional, whilst the solutions are equally not clear-cut. Clearly, without a significant decrease in costs, a significant increase in tariffs or a combination of both options, the debt levels will increase, either leading to further demands on the fiscus for guarantees or direct government support, or future demands for tariff increases will become even more excessive. Cross subsidies, especially aimed at rural areas, will also likely come under scrutiny which will certainly impact on the agricultural sector as well.

With an election on hand, government may opt for an option which, on face value, will appear to benefit the consumer ie to once again opt for a fiscal contribution of some kind. Government debt at current relatively high levels is likely to increase further, with a further



negative impact on credit ratings over a wide front, further demands for taxes to increase and ultimately upward pressure on interest rates. The fiscal route has clearly been exhausted, especially given additional demands by other SOE's functioning equally dismally.

The situation at present is one where Eskom requires a 15% tariff increase over the next three years, whilst a further RCA recovery of almost R33 billion is apparently justifiably required given NERSA rules in this regard. The outcome of these realities is that on municipal level, tariff increases of up to 20% is possible. The latter will in many cases be unaffordable.

Given that the situation appears to be almost insurmountable, solutions must be sought on all fronts. Increasing efficiency, reduction in operational costs, reduction in the personnel corps, re-evaluation of existing contracts and likely also the level and need of current cross subsidies and special pricing arrangements should be considered. Coal contracts should also be re-evaluated in view of pricing arrangements, and although not the preferred route, export taxes on coal could also be considered.

Be it as it may it does seem as if consumers will have to make some kind of additional direct contribution through tariff increases because the unintended consequences of delaying the process may in future prove to be even more severe.

