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COSATU COMMENT ON ESKOM’S MYPD3 FOR THE YEAR 2, 3, 4

Introduction

1. Eskom is a public entity which is owned by the state on behalf of the people of South Africa who is in turn represented by Cabinet through the Minister of Energy. Eskom is a national security sector and a natural monopoly which must be protected from private sector profit motives. If we allow the private sector to generate electricity it means that we support high electricity prices and we also accept that the cost of living will be high in the economy and this will hit workers hard as their salaries are in most cases fixed. However as workers we refuse to bear this cost. We therefore demand that the corporatisation of Eskom and current privatisation of Eskom’s assets be stopped.

Impact of high electricity prices on workers

2. Workers receive slave wages without benefits which are in most cases fixed. Where there are wage increases the real wage increase is very minimal and not more than 2% on average. Median monthly earnings of employees increased from R2 900 in 2010 to R3 300 in 2016. According to Statistics SA more than half of the population is poor and the number of persons living in extreme poverty (i.e. persons living below the 2017 Food Poverty Line of R531 per person per month) in South Africa increased by 2,8 million, from 11 million in 2011 to 13,8 million in 2015.

3. The unemployment rate is officially at 26.7% (6 million) as at quarter 4 of 2017 and if discouraged workers -those who have given up looking for work are considered the rate is 38% or 9.3 million people who want to work but are without jobs and this figure can exceed 40%. Labour flexibility, informalisation, casualisation and outsourcing are on an upward trend particularly in the private sector. Close to 18% of the workers are employed in vulnerable jobs in the formal sector. The number of social grants beneficiaries 17 million exceed those that are employed 16.1 million. Our neo liberal economic policies have turned the working class and the poor into beggars in a country rich of natural resources. We demand that the price of coal to Eskom

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must be fixed and not based on international markets for coal and in the long term Eskom must directly own the coal mines because one of the major drivers for high tariffs is coal prices.

Free basic electricity

1. Free basic electricity (FBE) of 50kwh is provided to poor households. According to NERSA report on FBE whilst most municipalities provide this minimum some do give more than 50kwh. The FBE is not effective as it is not granted to 13 million people who are below the national poverty levels. 50kwh per month is inadequate to maintain a decent standard of living and many of the indigent do not receive FBE. Whilst NERSA does not have policy powers to determine a fair FBP it can recommend to municipalities and the SALGA and department of energy to review FBE.
2. More than 13 million do not have enough resources to buy food and they are living below the lowest national poverty line. The Threshold of absolute deprivation or food poverty line is R531 at 2017 prices which is the amount of money required to purchase the minimum required daily energy intake.
3. We request NERSA to require Eskom and the department of energy to formulate a new pro- poor electricity policy which must among others include increasing the current FBE to 350 kwh and for all poor people and not some SASSA beneficiaries and for everyone earning below R4500. This would ensure that the poor are cushioned from inflation which the SARB has failed to stop. The current policy where municipalities formulate their own FBE without any national standard and budget exclude the majority of the poor from accessing electricity.

Privatisation of Eskom

4. ESKOM has committed to reducing its workers among others through the so-called natural attrition which is a form of retrenchment. Eskom employs directly about 47000 workers. The proposed privatisation of Eskom starting with its housing bank or mortgage bond unit will result not only in high prices but in electricity shutdowns and loss of jobs in the energy intensive sectors and across the economy. This is so as most of our exports are capital and energy intensive need low electricity prices such as steel and aluminium products. A good example of the result of privatisation is Telkom which used to employ around 60 000 today it employs less than 12000 and the prices of data is very exorbitant. We urge NERSA not to be party to this onslaught against the poor and working class. The Eskom's mortgage unit does not represent any major risk to Eskom's balance sheet as it is backed by the workers' wages.

5. The only practical way to reduce costs of business of Eskom is to de-commercialise Eskom and stop billions that are being siphoned off to the private sector particular in the provision of fuel, coal and renewable IPP's.

6. Whilst close to 85% of Eskom's installed generation capacity is from coal-fired power generation, there is no justification to use climate change goals to privatise energy. Eskom must invest in renewable energy.

Privatisation through Renewable Energy Independent power producers

7. Whilst Eskom is legally owned by all South Africans the government through the Minister of Energy has unilaterally resolved to increase the sale of Eskom to private companies without consulting the beneficial shareholders who are SA taxpayers. Private companies operate to make to make profits for their shareholders and not the public. The involvement of the private sector in energy generation will inevitably result in high prices of electricity.

8. The sale of Eskom to private profiteers and monopolies will have far reaching negative implications as mentioned above. The IPP deals have been negotiated in secret yet the Constitution of the Republic requires public participation and consultation. The price that Eskom will be paying to these so called investors for renewable energy has not been disclosed nor has its basis. We urge Nersa to reject Eskom's portion of IPP's.

9. The costs of renewable IPP's are high and the future costs uncertain and this will impose an unfair burden on the poor through higher tariffs. We reject the proposed 77c/kWh because it is too high especially when Eskom's cost is about 40c/kWh. According to Eskom;

   > "Current prices for RE-IPPs range from 77.5c/kWh to 380c/kWh. Prices in earlier rounds were significantly higher, thereby pushing up the average price for the year to 209c/kWh, against revenue of 83.6c/kWh, which includes transmission and distribution costs. In contrast, our shortrun marginal cost is about 40c/kWh. To be cost competitive, IPPs have to reach more economical levels of 77c/kWh or lower. In the long term, declining costs of renewables are expected to support an electricity price path that supports economic growth. IPP costs are currently a full pass-through to the consumer, negatively impacting electricity prices and ultimately, economic growth. The judgment in the Borbet case found that the efficiency and prudency test must also be applied to IPP costs, therefore full cost recovery of IPP costs in future is uncertain."[1]

10. In the past 10 years electricity prices have increased by more than 353%. It is de-reliction of duty for NERSA to approve Eskom tariff applications without breaking down the renewable IPP's costs and benefit. Eskom should be investing directly in renewable energy and not through third parties such as IPP's who are not adding anything but subtracting value from Eskom. We submit that the renewable IPP cost imposes an unnecessary burden on Eskom and it will prejudice the poor and the working class.

Renewable IPP contracts rules

[1] Eskom Integrated Report for the year ending 31 March 2017.

11. Section 15(1) of the Electricity Regulation Act (ERA) provides that the revenue Nersa allows Eskom to recover through approved tariffs “must enable an efficient licensee to recover full cost of its licensed activities, including a reasonable margin or return.

12. The NERSA power purchase (PP) cost recovery rules require that any PP agreement must meet the following requirements;
13. Allocation of risk between the buyer -Eskom and the renewable IPP’s.
14. A fair balance between the interests of consumers, industry and the public.

15. The conditions contained in the PPA must not prejudice users. It appears to us that the renewable IPP are not cost reflective. It is not clear what the IPP’s are bringing in the country, there is no local content, no transfer of technology and no transfer of skills requirement. There is excess energy and Eskom does not need energy from renewable IPP’s now. These unnecessary costs will negatively affect Eskom. It appears that the IPP’s contracts allocate all risks to Eskom and all benefits to IPP’s and the contracts are for a very long time.

The test for RCA application

16. The test for an RCA is whether or not the Eskom’s costs were justified. As mentioned above we believe that the costs of renewable energy IPP’s are totally unjustifiable.
17. The application must be rejected.

18. Eskom has spent R3.7 billion in enabling IPP connections to Eskom grid and Eskom’s total energy costs for IPPs amounted to over R18 billion up to March 2016. Whilst Eskom is committed to government energy mix policy it has raised the issue of renewable energy as a risk on their balance sheet. According to Eskom the uncertainty on the cost-recovery mechanism for IPPs’ energy costs remains a key concern. Therefore, on Eskom’s confession the costs related renewable IPP’s pose a bigger risk to Eskom and are unjustifiable.

Our demands

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-]We call for the review of the electricity regulation act and related policies to re-nationalise Eskom. The current legal framework favours private monopoly capital in the energy sector.

- To stop government from using the working class and the poor to pay private producers of electricity though high tariffs

- We demand free electricity of 450kwh[2] per month for each poor and working class household with an income of less than R210 000[3] per annum.

- An end to privatisation of Eskom including its mortgage unit.

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[2] Whilst some of the municipalities are providing the standard meagre FBE of 50kwh a few provide 100kwh and 150kwh. One of the reasons for the non provision of FBE by many municipalities is that FEB budget is derived from the equitable share to municipalities which are then used for operational issues than for FBE.

[3] This is based on the BCEA annual earnings threshold of R 205 433.30.

- An end to retrenchment in any form including in the form of natural attrition.

- Review and where possible cancel renewable IPP’s.

- Existing renewable IPP’s must buy all of their goods and services from SA, must transfer technology skills and hire South Africans.

- The newly signed renewable IPP’s must be reversed and cancelled.

- Coal as a major cost for producing electricity must be nationalised with immediate effect. This will reduce electricity tariffs. Alternatively the price of coal must be regulated and transparent and it must not be based on international coal prices.

- We urge NERSA to reject these applications as the costs incurred by Eskom were not in the interests of Eskom and the country but for a few private companies.