

COSATU SUBMISSION ON THE 2018/19 ESKOM TARIFF APPLICATION

North West Province
13 November 2017



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Background

- COSATU is the largest federation of trade unions in South Africa with 17 affiliates and 1.8 million members and our primary objective is to advance the interests of workers through
- Out of every rand earned by South African whether through income or welfare payments of at least 70 per cents goes towards payment of debt and more than 40% or 10 million out of 25 million credit or loan accounts holders are struggling to pay these debts.
- unemployment rate is 28% or 6.2 million, unemployment in terms of the expanded definition is 37% which translates into 9.4 million people without jobs in September 2017.

Context

- Electricity is indispensable to the modern economy and no actor in the economy can operate without access to cheap electricity. Electricity is important for households' e.g. cooking, for firms in order to produce goods and services and hire workers. Accordingly electricity is a public good which must be available to all people and business and that no one should be excluded from having access to electricity.

Electricity supply market

- ESKOM is a state owned natural monopoly in the electricity supply market and this status must be protected against private sector involvement and privatisation. A single company would not be able to invest in electricity supply market because of sunk costs and therefore, this sector should remain a nationalised sector.
- According to our view any private sector involvement in the generation, transmission and distribution of electricity amounts to privatisation that must be resisted.
- private sector participation in the electricity supply market is inconsistent with electricity as a public good.
- The purpose of a private firm is to satisfy the needs of its shareholders and to maximise profits in the short term at all costs

Eskom tariff application

- In terms of the 2013 multiyear price determination (MYPD3) the tariffs set by NERSA that Eskom would charge and recover from its customers was to increase by eight per cent year-on-year for each of the five years in question. The additional 1,4 per cent, an adjustment in relation to the 2013/2014 financial year, approved by NERSA, would mean that in the financial year 2016/ 2017 Eskom would have been entitled to a total increase of 9,4 per cent, which, as stated earlier, was passed on to end-consumers. Contrarily workers wage increases are limited to the headline inflation and not the prime rate which drives the price of goods and services.

Eskom tariff application

- For 2018/19 Eskom is applying for a tariff adjustment from R89.13 c/kwh to 106.87 c/kWh and from 205 billion rand revenue to 219 billion rand revenue. This would amount to a 20% tariff increase. According to Eskom the reasons for this increase are twofold; under recovery of revenue, and costs of production.

Renewable energy independent power producers (IPP's)

- There is no international law agreement which requires to countries to abandon natural resource in the form of coal in favour of clean energy without a just transition and financial and technical capacity
- Private renewable IPP's should not be allowed to sell electricity directly to customers but must only sell to Eskom and at the price determined by Eskom.
- The renewable IPP sector will not only affect the jobs in Eskom but will have a negative impact on the coal sector. This sector also employs approximately 87 500 people (excluding Sasol) and is thus a key contributor to local job creation.

Renewable energy independent power producers (IPP's)

- The Minister of Energy announced that Eskom will sign power-purchase agreements with independent power producers at a tariff not exceeding 77c/kWh.
- It is estimated that the IPP shares of the revenue will amount to R32 billion rand of the revenue of 219 billion rand or 15%. This cost is unjustifiable as there no evidence of how many jobs has been created by IPP's and whether these jobs are decent.
- The current move by Eskom and the department of Energy to liberalise and privatise Eskom is regrettable as it would negatively impact on the poor through high tariff which must be used to subsidise IPP's.

Prepayment on Cost plus mines

- It is estimated that Eskom spends about 45 billion rand on cost plus mines contracts. The principle of prepayment is prevalent in Eskom's cost-plus supply contracts with the large mining houses such as Anglo American, BECSA and Exxaro. These mining houses supply approximately 80% of Eskom's coal while Tegeta supplies less than 5% of the coal volume required by Eskom.

Prepayment on Cost plus mines

- Under these contracts Eskom pays a private company to build and deliver coal to Eskom. In Cost-Plus contracts Eskom pays for operating costs plus a pre-determined return-on-investment with mines owned by the coal miner. Eskom financed the coal industry through the cost-plus contract structure where Eskom paid for the actual cost of mining operations, plus an agreed profit margin. In general, long-term contracts are approximately 40 years and some of these are now approaching their expiry date
- Eskom can do this without having to go through a broker. Eskom must end its cost plus mines contracts which are another form of privatisation

Socio-economic impact

- Electricity is one of the biggest costs of doing business. According to statistics South Africa 30 million South Africans are poor. We believe that this is a conservative figure as wealth and income remain concentrated in few firms and individuals.
- Half of those who are employed earn less than R3700. Social welfare payments amount to 17 million per month mainly to children.
- It is not correct that in a country full of wealth 30 million are at the mercy of a few aristocrats. The huge income and wealth inequalities imply that we cannot have private sector operating in such an important area as electricity

Socio-economic impact

- The role of Eskom should not be limited to generating electricity but has potential to be used as centre of industrialisation in the country. It can also accelerate the development of black form in the production of goods and services to Eskom.
- The tariff application is silent about the procurement policies whether these policies are geared towards transforming the structure of the economy from mineral extraction to manufacturing. It appears that most of the procurement seek to siphon moneys outside South Africa and does not circulate in the domestic economy.

Free basic electricity

- The cost of electricity in South Africa, particularly to the industrial sector, has been among the lowest in the world
- Eskom acknowledges that there is no framework for providing the free basic electricity. In the absence of such a framework we propose that it be increased by 200% . If Eskom can be allowed to subsidise the establishment of a private renewable energy electricity industry there is no law which prevents Nersa from increasing free basic electricity by 200% per month for poor families.
- They must remove VAT on electricity.

Governance

- Concerns around governance must not be limited to financial management but must include role of trade union in key decision making structures of Eskom. Eskom boards/committees must be comprised of trade union representatives.

Conclusion

- The Electricity regulation act provides that Eskom must give end users proper information regarding the costs that their consumption imposes on the licensee's business
- The application should be rejected. Eskom should be granted an inflation linked increase. instead Eskom should reduce its in source some of the private services rendered services such as long term coal contracts, this should save Eskom billion without endangering jobs.
- Must only source its goods and service locally. Eskom must be at the centre of South Africa's industrialisation by procuring capital goods including machinery in South Africa.
- The 20% increase will be costly for the economy and may increases current job losses even if it were to be charged over a period of time. Eskom should not receive more than 4%.

Conclusion

- Eskom must stop reducing its workforce through frivolous disciplinary charges and must seek to resolve labour disputes without diminishing workers.
- Nersa must stop subsidising and including the costs of renewable IPP's in the Eskom tariffs. promoting the use of diverse energy sources does not mean that Eskom must be sold to renewable IPP's.
- Existing contracts must be reviewed, tariffs renegotiated and are cancelled

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