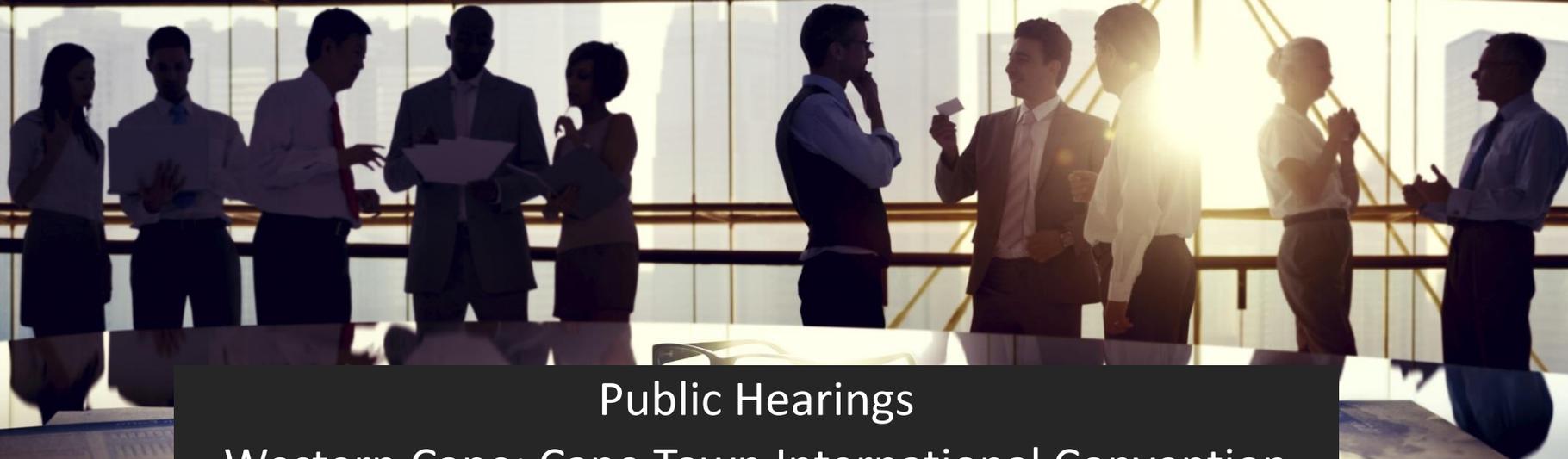


Cape Chamber of Commerce and Industry

MYPD 3: Eskom Regulatory Clearing Account application - Submission to NERSA



Public Hearings

Western Cape: Cape Town International Convention Centre, Cape Town – 17 April 2018

The Cape Chamber of Commerce & Industry (CCC&I)

- Established in 1804 (> 200 years old)
- The oldest member based organisation in Africa
- Focus on contemporary & relevant issues - a wide range of services, including information, training, networking, trade facilitation and robust advocacy on behalf of our members.
- Network >2,500 member companies – “voice” of business in the Western Cape
- Industrial focus portfolio - specific focus - energy & electricity security, supply & price path. The lifeblood, survival, job creator & major cost item of business. Now also water crisis...
- Seminars on energy mix & socio-economic impact – across all electricity generation technologies – CCC&I supports a lowest cost, security of supply energy mix and delivery from the Power Sector

RCA consultation process – should track developments, improve process

- Invitation for public comments on Eskom’s third Multi-Year Price Determination (MYPD3) Regulatory Clearing Account (RCA) Year 2 (2014/15), Year 3 (2015/16) and Year 4 (2016/17) applications and indicative timelines for the determination process
- Revised timelines for processing published...
- Previous document as per “Government Gazette” still active
- Clarity on timelines and dates – Western Cape on 7 May or 16 April
- Dates on all NERSA documents to provide clarity on process and times
- Process with Eskom presentations to key stakeholders presentation on 10 April – though written submissions closed on 23 March already...

Preliminary comments on four (4) key elements of MYPD3 RCA application

1. State capture, mismanagement, corruption impact on Eskom and timing of revenue applications
2. Cascade of South African Economy & Power Sector issues
3. Limitations of MYPD3 methodology over past 5 years
4. **3 x RCA applications and history of MYPD3** (technocratic approach not keeping up with reality)
(Acknowledge all the rules, regulations, requirements and technical aspects and documentation of MYPD, RCA, regulatory process etc.)

1. State capture, mismanagement, corruption: impact on economy - Eskom finances & tariffs

- Public Protector state capture report focusing on Eskom
- Public Enterprises Parliamentary enquiry into state capture centred on Eskom – awaiting report
- Zondo commission on State Capture to commence – Eskom significant
- **“...efficient and prudent operator...”** test failed at the start gate
- Eskom since December 2017- all new, a “new dawn” but fighting the “ghosts in the machine”
 - Board & Chairman Mr Mabuza
 - Executives & Acting GCE Mr Hambani
 - Plans (e.g at PCE presentation)
 - However all still based on 2017 and prior decade – even if new interim AFS by new board

State capture impact on Eskom & reputation – restoring confidence, stabilising and recovery with “new dawn” and “new brooms”

Mr Dondo Mogajane, Director-General: National Treasury

“Restoring Economic Confidence and Stabilising the Public Finances” at UCT GSB distinguished speaker programme:

- *“The state was captured - it’s not me saying that today. Everyone knows it.”*
- *“State capture was at play in Eskom. It was centred around Eskom. More is going to come out through the state capture enquiry.”*
- *“We wasted a lot of time because of state capture, instead of focusing on what we should do to grow the economy”*
- *“We wasted a lot of time in focusing on the wrong things, but I think now the time is right for us to go on.”*

No mention, acknowledgement, allowance or “adjustment” in any MYPD3 or subsequent RCA applications

2. Cascade of South African Economy & Power Sector issues

- RCA application (for 3 years)
- MYPD Revenue applications based on MYPD3
- Eskom performance operationally and financially – aggressive cost cutting & new revenue
- Eskom overall governance
- Eskom financial & liquidity position – survival, going concern...credit rating
- Eskom “utility death spiral”
- SA Power Sector structure & performance – security of supply
- SA economy & public finances –
 - Credit ratings agencies, difference between SA and Eskom
 - Component of Eskom debt as part of SA sovereign – SA ratings
 - Growth, employment
 - Consumer bail-out?

NERSA comments to Parliamentary Portfolio Committee on Energy to 2018/19 Revenue application

- Eskom has perpetually failed to collect the allowed revenues whilst its expenditure has also continued to exceed that determined by the Energy Regulator
- Continued increases in tariffs has seen commensurate decreases in consumption, which have been attributed to, amongst others, affordability limits having been reached by its customers in a depressed economic environment and a stagnant economy (vicious cycle)
- In order to break the vicious cycle, Eskom needs to either reduce its costs (including its fixed cost base) and hence it's allowable revenue requirement whilst growing its sales volumes, thereby driving its tariffs to their most efficient level. This should result in smaller tariff increases going forward that will attract additional sales volumes that will result in even smaller tariff increases going forward and even higher sales volumes and so on, allowing it to transition to a virtuous cycle, which is the desired future state
- *Also known as "Utility death spiral"*

3. Limitations of MYPD3 methodology over past 5 years

- Revenue variance and adjustment represent 67% (R44 bn) of total of R66bn of the 3 RCAs submitted

Abnormal and combining issues:

- Load shedding
- State capture, mismanagement, corruption
- Economic growth stalled
- Industrial demand sector fundamentally changed – industry, mines etc. component of electricity demand reduced

Presentation by Thembani Bukula 2017 – previous Regulator Member primarily responsible for electricity at the National Energy Regulator of South Africa (NERSA)

How did the methodology performed?

MYPD1

Changes in Primary Energy and Capex costs by more than 100%

	2006/7	2007/8	2008/9	2008/9	2008/9	2009/10
Eskom Application	6.1%	6.9%	7.2%	18.7%	60%	34%
NERSA Approved	5.1%	5.9%	6.2%	14.2%	27.5%	31%

- Changes in Primary Energy costs and Capital expenditure costs by more than 100%

MYPD 2

Inability to spend allocated revenue as per determination

	2010/11	2011/12	2012/13
Eskom Application	35%	35%	35% (16%)
NERSA Approval	25%	25%	25% (16%)

Delayed Capital Expansion program

MYPD3

	2013/14	2014/15	2015/16	2016/17	2017/18
Eskom Application	16%	16%	16%	16%	16%
NERSA Approved	8%	8%	8%	8%	8%
RCA Approved			12,7%	9.4%	2.2%

Unavailability of the generation fleet and over expenditure on diesel costs

4. 3 x RCA technocratic applications and history of MYPD3

- 1 year extension to MYPD3 recently completed 2018/19 – thus 6 years in total
- RCA year 1 (2013/14) was in 2016/17 (R22bn apply – R11bn granted)
- Now RCA year 2 to 4 (average R22bn in each year – total R66bn)
- RCA Year 5 (2017/18) - sometime in future? (another R20+bn)
- Year 6 (2018/19) based on 5.2% increase - another RCA? (another R20+bn)

- And MYPD4 towards end of 2018 – not even started to look at price path – but test of “efficient, prudent operator”?

- No clear indication of application of this 3 year RCA (2% over each of 5 years? Nominal 10 to 15%)

Efficient & prudent operator/operations in SA Power Sector Reform

- NDP 2030 – noted in Eskom AFS, but no definite plan on restructure, reform?
- NERSA MYPD includes objective “...appropriately allocate commercial risk between Eskom and its customers...”
- NPC Energy Paper February 2018 – public input started Apr 2018
- NPC policy inputs (last week Western Cape)
- Electricity industry “vision and end state”, restructure of Eskom
- Avoid “utility death spiral”, stranded assets and collapse of liquidity
- Eskom restructuring, corporate structuring & financial allocation must form part of any future MYPD
 - Separate business units
 - Generation
 - Transmission/Systems operator
 - Distribution
 - Retail
 - Other

Conclusion and appeal

Interim, short term proposal (1 -2 years):

- Suspend, stall the RCA applications – moratorium on MYPD3 applications
- Stabilise, recover & balance: Next year(s?) increase based on CPI, plus IPP component (pass through)
- Review the cascade of SA economy & power sector issues
- Eskom liquidity addressed at SA national economy level (balance between consumer and utility)

Medium (3-5 yrs) & longer term proposal (5 to 10+yrs) – based on specific plans:

- Eskom new strategy/corporate plans, expense reduction & state capture recovery plan – with stakeholders in SA economy and power sector, energy grand transition (IEA, WEF, WEC, World Bank etc.)
- SA power sector reform framework – Eskom input & survival of Eskom as a utility in future (objectively as a SA solution) with DPE, DoE, DoF, SALGA, EIUG etc. – policy and plans e.g. NDP, IRP, IEP etc.
- Review the forward MYPD methodology for a reformed Power Sector – separate parts of value chain, specifically an independent Transmission Systems Operator (not only Eskom as vertically integrated utility) to regulate electricity security, stability and price path for SA economic survival and growth – long term investment