



**CAST PRODUCTS**  
SOUTH AFRICA

# **Eskom Price Applications**

## **Representation**

### **to NERSA Public Hearing**







**Midrand 5 February 2019**

# Business Overview



- Cast Products South Africa (Pty) Ltd was established in March 2018 when the Foundry Division of Scaw Metals was corporatised as a separate and stand-alone entity.
- Operations consist of 5 Foundries:
  - 3 fed on Eskom Megaflex Tariff,
  - 2 fed on Ekurhuleni Tariff D
- 1000 employees (reduced from 1800 employees in 2013)
- Consume 68 GWh of Electricity Per Annum.
- A Foundry is an energy intensive business that uses Electricity in the melting of steel and electricity or gas in heat treatment of castings,
- Electricity makes up between 10 & 17% of cost.
- Most competitors run foundries based in India or China. Ie. We compete against Chinese and Indian electricity pricing.

# Products & Sectors

	Mining			Railway	Power	General engineering
	Mill liners	Metal/mineral processing	Crushing			
						
<b>Main products</b>	<ul style="list-style-type: none"> <li>Manganese and alloy mill liners</li> <li>Screens, lifter bars and other related mill products</li> </ul>	<ul style="list-style-type: none"> <li>Slag pots and ladles</li> <li>Cylpebs and eclipsoids</li> </ul>	<ul style="list-style-type: none"> <li>Mantle and bowl liner wear parts for crushing machinery</li> </ul>	<ul style="list-style-type: none"> <li>Locomotive and wagon frames</li> <li>Wheels</li> <li>Couplers, yokes and other products</li> </ul>	<ul style="list-style-type: none"> <li>Pulverising rings and balls</li> <li>Table segments and rollers</li> <li>Spiders and other related products</li> </ul>	<ul style="list-style-type: none"> <li>Girth gears</li> <li>Other made-to-order engineering products</li> </ul>
<b>Uses</b>	<ul style="list-style-type: none"> <li>Used to free minerals from ore body</li> <li>Manganese mill liners used with older milling technology, particularly for gold</li> <li>Alloy mill liners used with platinum</li> </ul>	<ul style="list-style-type: none"> <li>Slag pots and ladles used in mining smelting processes</li> <li>Cylpebs are grinding media technology used to a limited extent in gold and platinum mining as well as coal processing</li> </ul>	<ul style="list-style-type: none"> <li>Primarily serves mining industry but also used in concrete processing to convert large aggregates into smaller pieces</li> </ul>	<ul style="list-style-type: none"> <li>Products used in rail freight transportation in Southern Africa and North America</li> </ul>	<ul style="list-style-type: none"> <li>Products used in vertical spindle mills for coal fired power stations to pulverise coal</li> </ul>	<ul style="list-style-type: none"> <li>Girth gears from part of heavy duty gearboxes used in mining, power and construction</li> </ul>
<b>Type of spend</b>	<ul style="list-style-type: none"> <li>Consumable</li> </ul>	<ul style="list-style-type: none"> <li>Slag pots: Capital</li> <li>Cylpebs: Consumable</li> </ul>	<ul style="list-style-type: none"> <li>Consumable</li> </ul>	<ul style="list-style-type: none"> <li>Capital</li> </ul>	<ul style="list-style-type: none"> <li>Consumable</li> </ul>	<ul style="list-style-type: none"> <li>Girth gears: Capital</li> </ul>

# The Eskom MYPD4 request



- 2019/20 RCA 4.41% (Already Approved for 2014/15 to 2016/17)

## MYPD4

- 2019/20 MYPD Y1 17.1%
- 2020/21 MYPD Y2 15.4%
- 2021/22 MYPD Y3 15.5%

Total Increase (MYPD4 + RCA) 62%\*  
CAGR equivalent 17% per annum

Nett of Inflation assumed at 5.8%:

Total Increase (MYPD4 + RCA) 38%\*  
CAGR equivalent 11.2% per annum

(\* Excludes 2.8% proposed hike to recover RCA for 2017/18 to be implemented 2020/21.)

**MYPD4 increases Electricity cost by  
38% above inflation over three years.**

# Impact of Eskom MYPD4 request



## Where to save?

How can CPSA offset a 38% net of inflation electricity price increase?

For operations running with electricity at 17% of cost, a 38% above inflation increase creates a 6% cost increase.

- Can't pass through increases to customers with increased selling price.
  - Casting Product Prices determined by markets.
  - Customers benchmark casting prices internationally.
- Following input costs already being squeezed in order to remain competitive:
  - Metal, Alloy, Refractory, Electrodes and Moulding Consumable Costs are largely coupled to international pricing.
  - Already limited increases in wages, with freezing of salaries was required to remain competitive before Eskom price increases were contemplated.
  - "Low Hanging Fruit" of energy efficiency improvement have been picked already. Driven by escalating electricity costs in last decade. Future savings more difficult and require increased capital investment.

# Impact of Eskom MYPD4 request



## Eskom Pricing effects Mining which effects Foundry Jobs

- Should the gold-mining and platinum mining sectors collapse completely due to the proposed electricity increases, as suggested last week by the Minerals Council of South Africa, it will heavily reduce local sales of mining castings and dramatically effect the viability of affected foundries.
- CPSA, and other non-automotive foundries, carry a large customer base of miners and suppliers into the mining industry.
- Mining formed the backbone of creating the foundry industry in South Africa.
- Reduction in mining and downstream beneficiation such as ferro-alloy production has contributed to foundry closures and de-industrialisation of South Africa.

**Eskom Price Increases place at risk  
foundries that serve the local mining industry**

# Impact of Eskom MYPD4 request



## Steel Foundry Jobs

- Internationally foundries are chasing greater levels of automation to improve productivity and unit labour costs.
  - To remain competitive CPSA has already made significant capital investments in semi-automated processes.
  - To offset the 38% electricity price increase will place a further burden on operations that will need to find opportunities to operate with 100 less employees (10% less) whilst maintaining similar output.
  - In a steelmaking enterprise, each 100 jobs creates a multiple of 317 jobs
    - (source: "Updated Employment Multipliers for the USA Economy : 2003" Josh Bivens)
- To produce the 68 GWh that CPSA uses in a year, Eskom employs 16\* persons, and World Bank estimates that Eskom needs to employ two-thirds less.  
(\*68GWh/212,190GWh X 48,629 Eskom Jobs)
- In CPSA, 1000 employees use the 68 GWh p.a. of electricity to produce the large steel castings needed by industry, which then supports 3170 jobs in our economy.

The 38%, after inflation, Eskom Pricing request places multiples of jobs at risk. To remain internationally competitive CPSA requests increases to be limited to inflation.



**The 38%, after inflation, Eskom Pricing request places multiples of jobs at risk.**

**To remain internationally competitive CPSA requests increases to be limited to inflation.**



Questions?