



Coca-Cola

**Beverages
South Africa**

**SUBMISSION IN RESPECT OF ESKOM'S REVENUE
APPLICATION FOR 2018/19.**

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1. ABOUT COCA-COLA BEVERAGES SOUTH AFRICA (CCBSA)

Coca-Cola Beverages South Africa (**CCBSA**) is a recently (2 July 2016) merged private entity, which is a manufacturer, bottler and distributor of non-alcoholic beverages. CCBSA operates across South Africa, and supplies its products to various customers ranging from large retailers to small traders such as informal convenience shop businesses, usually run from home, and commonly known as “spaza” shops. We employ just under 7500 people across the country and are head quartered in Gauteng, Ekurhuleni.

2. INTRODUCTION

CCBSA notes the publication requesting stakeholders and affected parties to submit comments on Eskom’s revenue application for 2018/19 and welcomes the decision.

CCBSA further welcomes the opportunity to make oral submissions during the public hearings to be held from 30 October 2017 to 16 November 2017 at a venue to be disclosed by Nersa.

CCBSA has not made comments in relation to each issue highlighted in Eskom’s application, but has instead focused on the broader issues that have a particular impact on its business in South Africa and the businesses of its customers. CCBSA’s omission of addressing any other issues should not be seen as its confirmation of such provisions.

Eskom's multi-year price determination cycle comes to an end on 31 March 2018. The energy regulator approved that Eskom will submit a revenue application for a single year for the period 1 April 2018 to 31 March 2019.

Eskom’s application to Nersa calls for a 19.9% increase in the average price of electricity that the utility will charge from April 2018. This is under the fourth Multi-Year Price Determination (MYPD4).

Whilst Eskom calls for a 19.9% price increase, this is the increase overall to Eskom’s electricity revenue, so different tariffs will increase at different rates. This means that

for all but the very low electricity users, the bills will go up much more than 20%. Municipality consumers could be charged an increase of up to 27.3 %.

Nersa has an obligation to balance the interests of all stakeholders. This means price increases should be “considered and prescribed” with “full disclosure” of relevant information by Eskom.

Eskom's electricity tariff increase application lacks the facts explaining why the increase is needed. They have blacked out all the critical information on the application form. CCBSA believes energy regulator Nersa should not have allowed Eskom to block public access to coal costs in its tariff application.

3. ESTIMATED ANNUAL FINANCIAL IMPACT OF THE PROPOSED INCREASE ON CCBSA

Should Eskom’s price application be approved, our electricity bill will be way more than 20%, thereby making it difficult for us to sustain our business. In the past 5 years, due to difficult operating environment as a business we have not been able to pass any inflation related price onto our consumers. Our own pricing to consumers has been between 2-3% below inflation. We did this despite double digit increases in our input costs. The business has implemented a number of continuous improvement initiatives to cut wastage and costs in our value chain to reduce the impact of ever increasing production costs. We have closed depots, redeployed people and reviewed how we service the market all in an effort to reduce the need for us to take an inflation related price increase. Our product is price sensitive and we have limited ability to pass such price to consumers. CCBSA is concerned that the electricity utility is becoming unsustainable with a particular focus on the tariff structure and long-term price trajectory.

Should the proposed increase on energy tariffs go ahead, it will impact CCBSA negatively in that, it operates nationally and sources electricity from the municipalities. The estimated costs could increase **to approximately R51 324 000 per annum.**

Further hikes could force electricity intensive companies like CCBSA to defect from the grid. Such defection could take the form of CCBSA installing cheaper own- or

cogeneration plants, or result in operations being moved to jurisdictions where power prices and the price path are more attractive.

As a responsible corporate citizen, CCBSA's mandate is shaped and influenced by government's key initiatives. That stated, the National Development Plan (NDP) aims to eliminate poverty and reduce inequality by 2030, by drawing on the energies of the people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society.

Moreover, CCBSA submits that the timeframe for public comment is constrained. A mere month from 13 September 2017 to 13 October 2017 is insufficient for all the stakeholders to make submissions.

There is a need for greater transparency and more rational explanations from Eskom for its ongoing requests for high electricity tariff hikes at the expense of those that contribute to the economy.

4. CCBSA CONTRIBUTION TO SOUTH AFRICA

CCBSA contributes over R45m annually to make a sustained and significant contribution to inclusive economic growth and job creation. This indicates the commitment that CCBSA has to positively impact the communities in which it operates.

Support is given to SMME's and township revitalisation. Retailers are supported, spaza shop owners are trained through small business development programmes, thereby indicating participation in South African Township Economy Revitalisation.

The business sponsors an education programme, The Ikamva Youth Project, which assists matriculants to improve their matric results and the Phil Gutsche scholarship programme that assists learners from disadvantaged communities to attend institutions of higher learning. This therefore entails a participation in Education and the welfare of young people.

In addition, Youth Entrepreneurship and Development Skills are being imparted to the communities through initiatives like Bizniz in a box, thereby empowering previously disadvantaged youth and black women. Women empowerment is critical to CCBSA, hence women are receiving business skills training and there is support to women who are small scale sugar cane growers. In terms of agriculture, sugar is purchased locally

and CCBSA supports small scale sugar cane farmers. Support is also available to developing small black fruit farmers with a special focus on grapes.

Moreover, as a result of the merger, CCBSA has agreed to the following merger conditions as set by the Competition Tribunal (not a closed list):

- CCBSA to maintain the same employment levels as at approval date for five years and that no retrenchments of employees will occur;
- To establish a R400 million fund to develop previously disadvantaged farmers in our value chain and spend an additional R400m to develop downstream distributors and retailers and provide business skills training to 25,000 black retailers over five years.

5. CCBSA'S POSITION ON THE PROPOSED TARRIFF INCREASE

5.1 Economic Impact

The proposed tariff increase will have substantial economic consequences at a time when the economy is facing strong headwinds in that, it will curtail CCBSA's ability to enhance its contribution to broader economic growth, job creation and sustainability.

Should the proposed tariff increase be finalised, CCBSA would need to reconsider its committed investments, which considerations could have a negative impact on agriculture, agro-processing, transport and logistics sectors.

It seems that the question of affordability to the customer, be it to ordinary citizens or to the productive economy, is completely disregarded by Eskom in its application. While the proposed tariff increases may be good for Eskom, they are clearly bad for the economy.

5.2 Tariff increases will derail job creation

Quarterly Employment Survey for the second quarter of 2017 released by Statistics South Africa on 28 September 2017, show a decline of 34 000 jobs (or -0.4%) to 9 617 000 in the formal non-agricultural sector in the quarter ended in June 2017. The unemployment rate is at 27.7 % which is, already too high.

The South African economy is in a vulnerable state. Economic growth is stagnant, unemployment is increasing, inflation is accelerating and the currency is in decline. Our economy simply cannot withstand an additional shock from a sharp electricity price increase.

The impact of tariff increases is particularly acute for small, medium and micro-sized enterprises (SMMEs) who have limited capacity to absorb higher costs. SMMEs are the driving force behind job creation in South Africa – any additional tariff increase will severely constrain their ability to do so and only serve to kill existing and future jobs.

6. CONCLUSION

CCBSA believes that it is neither economically nor politically the right time to implement a 19.9% energy tariff increase. The proposed tariff increase, is destabilising the industry and threatens economic growth and job creation. Despite being a major player in the industry, a price increase of approximately R51 324 000 is too steep and CCBSA cannot absorb the impact thereof. CCBSA opposes Eskom's application to Nersa to raise electricity tariffs more so without justification. CCBSA is committed to participate in Nersa's process and look forward to further engagement on the revenue application with stakeholders