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

Introduction

Eskom is a public entity which is owned by the state on behalf of the people of South Africa. Eskom produces more than 90% of electricity through burning coal which causes harmful chemicals in particular to the health and safety of workers and communities that live around the mines. We condemn calls that we must abandon coal at the cost of workers and whilst retaining the evil free market industrial capitalism.

Energy production is the hallmark of industrial capitalism. Hence we argue that energy production transmission and distribution cannot be left to the private but must be state owned and controlled. It is national security sector 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 production will be high in the economy. However as workers we refuse to bear this cost. We therefore demand that the corporatisation of Eskom and current privatisation of assets be stopped.

Impact of high electricity prices on workers

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. The median wage is currently R3200. 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.

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. Most commentators argue the unemployment rate is more than 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

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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.

Free basic electricity

Free basic electricity 50kwh is provided to poor households. According to the NERSA report on FBE whilst most municipalities provide this minimum some do give more than 50kwh. The FBE is not effective and is not cushioning the poor from high electricity prices because it 50kwh per month is inadequate to maintain a decent standard of living; some of the indigent do not receive FBE. Whilst NERSA does not have policy powers to determine a fair FBE it can recommend to municipalities and the SALGA and department of energy to review FBE.

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.

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 for everyone earning below R4500. This would ensure that the poor are cushioned from inflation which the SARB has failed to stop as electricity prices are inflationary on their own. The current policy where municipalities formulate their own FBE without any national standard and budget exclude the majority of the poor from accessing electricity. There is a need for a dedicated budget to provide electricity subsidies to the poor.

Privatisation of Eskom

ESKOM is committed to reducing its workers among others through the so-called natural attrition which is a form of retrenchment. Eskom employs directly about 44000 workers and thousand in indirect employment from suppliers of goods and services to Eskom. The proposed privatisation of Eskom starting with mortgage bond unit will result not only in high prices but in electricity shutdowns and loss of jobs particularly not only in the energy intensive sectors but across the economy. A good example of the result of privatisation is Telkom which used to employ close to 49000 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 mortgage unit does not represent any major risk to Eskom's balance sheet as it is backed by the workers' wages.

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 and coal.

Privatisation through Renewable Energy Independent power producers

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 profits for their shareholders.

and not the public. The involvement of private sector in energy generation will inevitably result in high prices of electricity.

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.

In the past 10 years electricity prices have increased by more than 353%. If NERSA continues approving Eskom tariff applications without breaking down the renewable IPP costs and benefit COSATU will have to consider calling for the review of NERSA and transferring these powers to the Ministry. Eskom should be investing directly in renewable energy and not through third parties such as IPP who are not adding anything but subtracting value from Eskom. We submit that the renewable IPP cost imposes an unnecessary burden and it will prejudice the poor and the working class.

Renewable IPP contracts rules

Section 15(1) of the Electricity Regulation Act (ERA) which 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

The NERSA power purchase cost recovery rules require that any PP agreement must meet the following requirements;

- Allocation of risk between the buyer Eskom and the renewable IPP's.
- A fair balance between the interests of consumers industry and the public.

The conditions of PPA must not prejudice users. It appears to us that the renewable IPP are not cost reflective we do not know what they are bringing in the country there is no local content, no transfer of technology 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 very long. Therefore, Eskom's application should be rejected unless if they can disclose these costs.

We demand that that power purchase agreement rules be reviewed s they are currently in favour of private sector.

The test for RCA application

The test 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. We believe that the costs for renewable IPP's are unjustifiable.

The application must be rejected. In the event that the application is granted Eskom should not be granted more than half of the recent increase of 5%.

Eskom has 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. The uncertainty on the cost-recovery mechanism for IPPs' energy costs remains a key concern.

Our demands

- 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 through high tariffs
- We demand free electricity of 450kwh¹ per month for each poor and working class household with an income of less than R210 000² per annum.
- An end to privatisation of Eskom including its mortgage unit.
- An end to retrenchment including in the form of natural attrition.
- Review and where possible cancel IPP's.
- Existing IPP's buy all of their goods and services in 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.

¹ 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 many municipalities is that FEB budget is from the from equitable share to municipalities which is then used for operational issues than for FBE.

² This is based on the **BCEA** annual earnings **threshold** of R 205 433.30.