

ESKOM'S APPLICATIONS FOR: MYPD 3 RCA FOR YEAR 5 and MYPD 4 REVENUE REQUIREMENT

Presentation to NERSA

By

Terry Markman

Free Market Foundation

5 January 2019

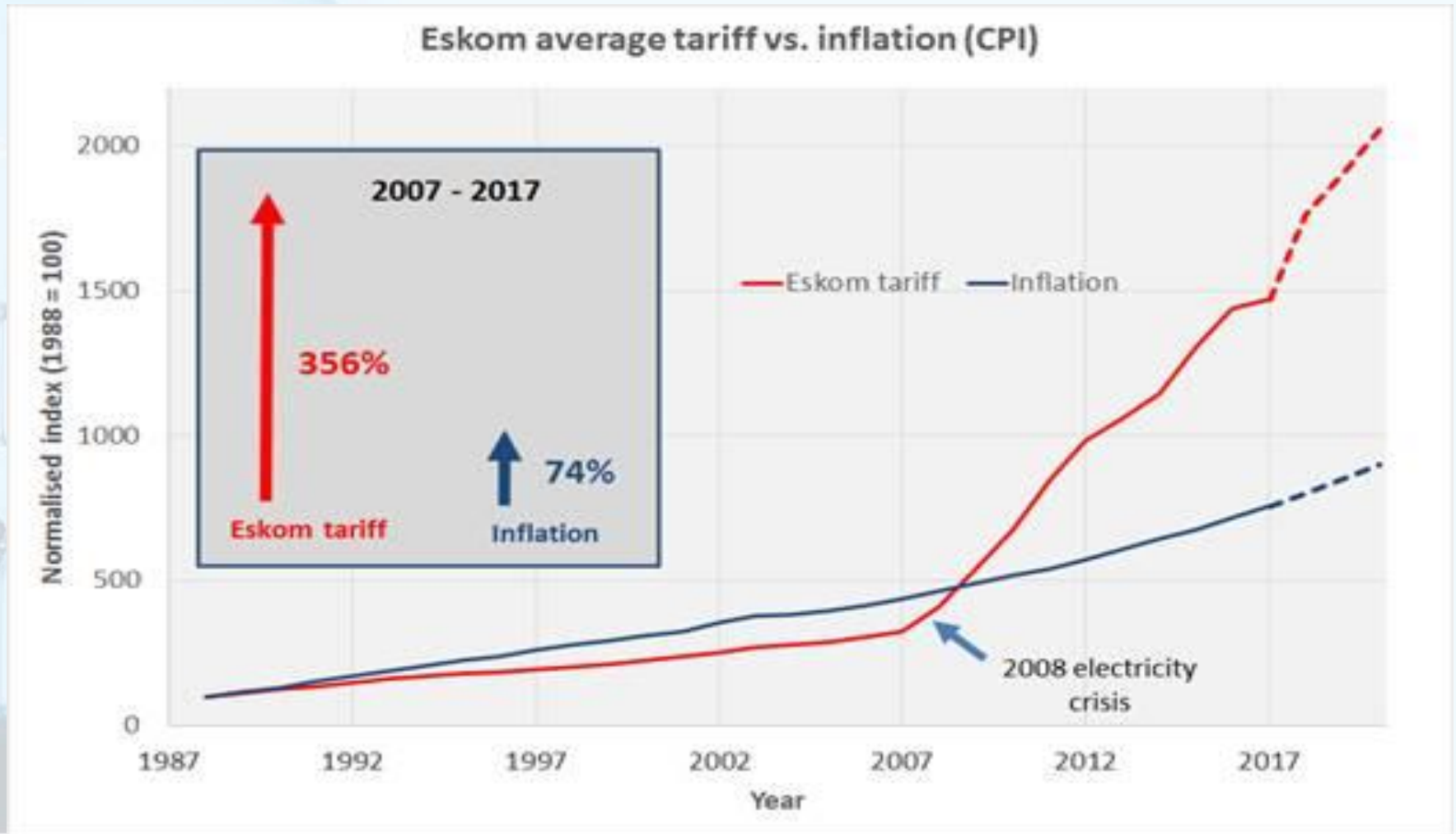
FREE MARKET FOUNDATION

- Independent non-profit, public benefit organization founded in 1975 to promote the fundamental components of classical liberal principles :
 - an open society
 - the rule of law
 - personal liberty
 - economic freedom**
 - press freedom
 - human rights and democracy

ESKOM WANTS.....!!

- **R21.6bn**
- **Tariff increase of 15% / year x 3 years**

ESKOM WANTS MORE!!



WHY THE HUGE TARIFF INCREASE?

- Gross inefficiency (EAF < 70% vs target of 78%)
- Poor management
- Maladministration
- Corruption
- High wages – 4 x in 10 years
- Medupi, Kusile, Ingula overspend
- Etc

COST INCREASES

| | Original Estimate Rbn | Latest Estimate Rbn | Increase |
|---------------|----------------------------------|--------------------------------|-----------------|
| Medupi | 69 | 195 | 2.8 |
| Kusile | 81 | 225 | 2.8 |
| Ingula | 9 | 36 | 4 |
| TOTAL | 159 | 456 | 2.9 |

Eskom Performance

| | 2007 | 2017 |
|---|------------|---------|
| Total installed capacity (MW) | 42 618 | 44 134 |
| Electricity sales (GWh) | 218 120 | 214 121 |
| Revenue (R millions) | 39 389 | 177 136 |
| Average selling price (c/kWh) | 18 | 83.6 |
| Coal purchases (Mt) | 117.4 | 120.3 |
| Coal costs (R millions) | +/- 10 000 | 50 300 |
| Employee costs (R millions) | 9 451 | 33 178 |
| Employee numbers | 32 674 | 47 658 |
| Debt securities & borrowings (R millions) | 40 455 | 355 300 |

Source: Eskom Annual Reports

OVER STAFFING

**Eskom's staff complement should be at
least 30% less**

(Chairman Mabuza 15.5.18)

Eskom overstaffed by 66%

(World Bank 2016)

IMPACT ON THE COUNTRY

- untold economic damage – jobs lost
- reduction in manufacturing and mining investment – jobs lost
- companies not investing – jobs lost
- Reduction in GDP and FDI – jobs lost
- jobs lost – jobs lost – jobs lost
- Eskom jobs + 20,000 vs 100,000s lost

WHAT SHOULD ESKOM GET?

- NOTHING until costs have been prudently & efficiently determined. If $> R0$ then error!
- Nersa has evidence thru ongoing monitoring that costs have NOT been prudently and efficiently incurred.
- The Electricity Regulation Act (ERA) - only compensate efficient entities

WHAT SHOULD ESKOM GET? cont

- 101 Economics - increase in tariffs =
lower demand = lower revenue
- Not R21bn, or R15bn, or R5bn.
- Not 15% year
- Grant ESKOM NOTHING or a reduction
- That is what Eskom deserves

WHAT SHOULD ESKOM GET? cont

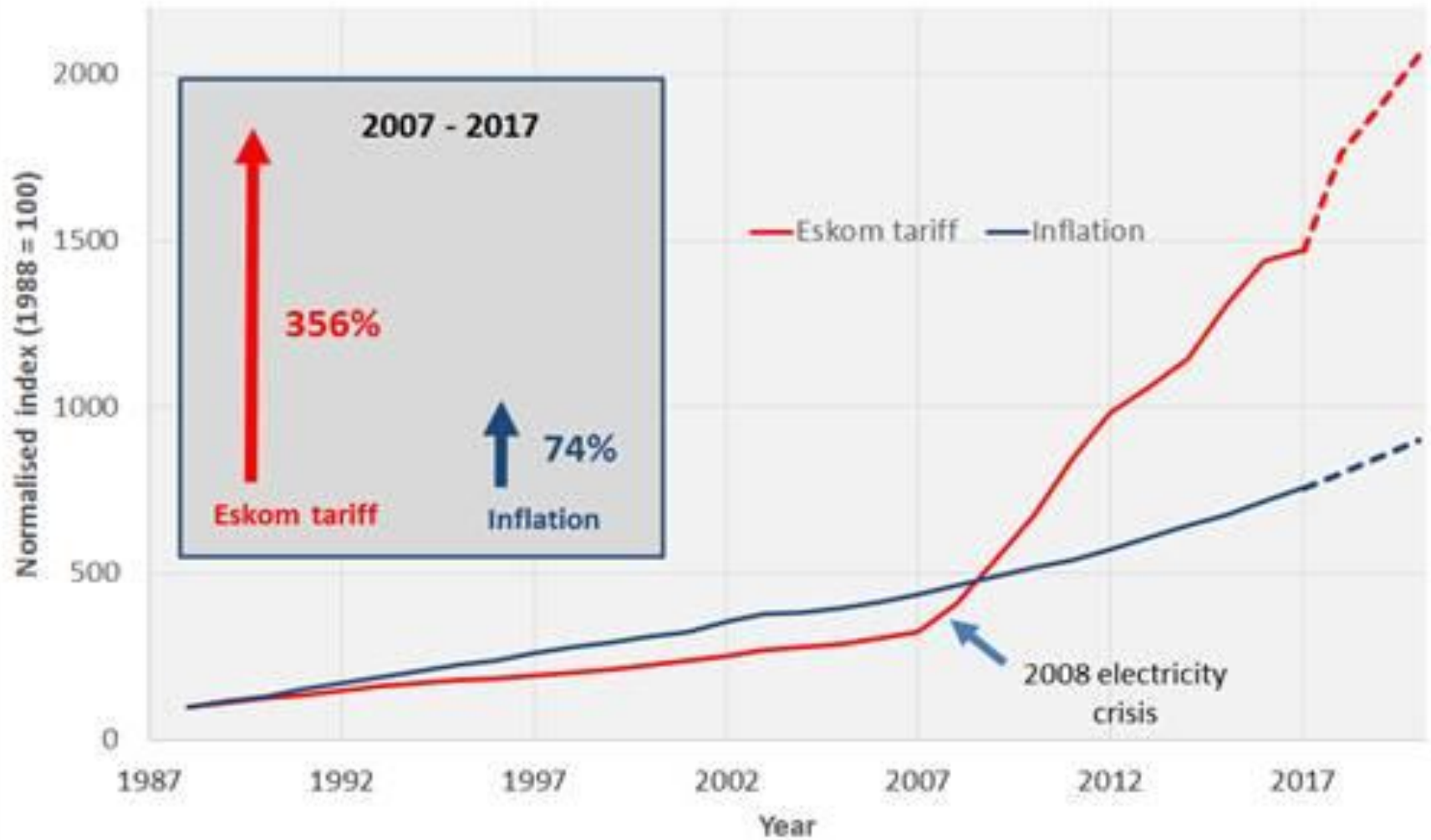
- Any grant or increase says:
 - *‘well done ESKOM please continue with your*
 - *Gross inefficiency and poor management*
 - *Corruption*
 - *High wages*
 - *Causing 100,000s job losses’*
- Send Eskom a strong message –

ENUFF IS ENUFF

TELL ESKOM TO DO WHAT COMPANIES IN FINANCIAL TROUBLE DO

- become efficient
- reduce their wage bill
- sell off assets
- reclaim stolen money
- claim against any illegal contracts
- or else more of

Eskom average tariff vs. inflation (CPI)



INSANITY

- The surest sign of insanity is to do the same thing over and over again and expect a different outcome
(wrongly attributed to Albert Einstein)
- Sanity requires NERSA to say

NO MORE - ENUFF IS ENUFF

WHAT SHOULD NERSA DO?

- Tell the Dept of Energy, Treasury, Public Enterprises to address the fundamentals
- We need an independent and objective organization to tell the govt what the solution is
- Nersa should undertake this task? They have the knowledge and they understand policy
- Eskom do NOT - they are operators
- The FMF can assist

THE FUNDAMENTALS

- Independent transmission grid
- Competing power generation
- Sell above assets to pay for debt
- Independent distribution grid
- **Deregulate** to increase competition
- Create an energy market i.e. competition
- Nothing new – included in 1998 White Paper, ISMO Bill, NDP
- This will achieve energy security

TRANSMISSION GRID

- Create an independent transmission grid
– sell 49%
- International best practice
- All electricity producers to have access to the grid – equal treatment
- Eskom must no longer be ‘referee’ and player

GENERATION

- Introduce competition to bring prices down (e.g. IPP renewable prices)
- Separate and sell off power stations by tender
 - including old power stations (at any price)
- already 5 to 10% is in private hands
- private sector generation is efficient, reliable & well maintained
- private sector will invest in energy - e.g. IPPs

COMPETITION GIVES BEST RESULTS

- **EU (27 countries)** introduced competition (access to grids) & prices fell by up to 20%
- **The UK** broke up electricity monopoly – prices took 20 yrs to double
- **The US** has a multiplicity of competitors

DEREGULATE

- to increase competition
- allow anyone to produce and sell electricity to anyone else
 - off grid (only safety regulation required) e.g. adjacent farmers
 - wheeling thru the national grid (only safety and technical regulation required)

SELL OFF ASSETS

- Eskom must sell off assets to pay for debt
- This is what companies in financial trouble do!

ENERGY MARKET

- Create a market in energy to keep prices down
- NERSA can set max prices but allow competition to bring prices down
- Extend the SA Power Pool or similar
- ‘Day ahead’ market exists at SAPP

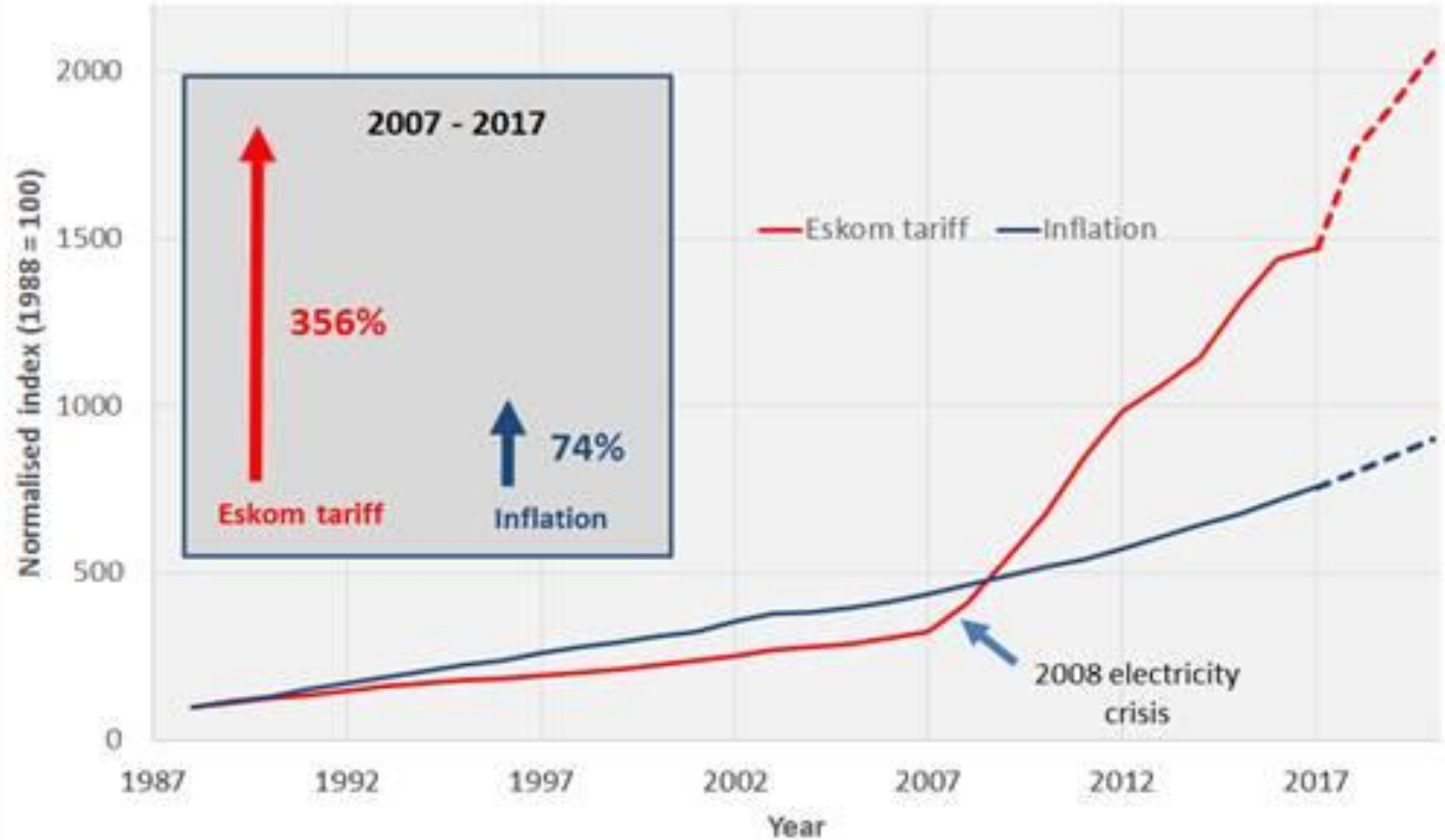
ENERGY SECURITY

- Applying the fundamentals will lead to energy security
- Cheaper electricity
- No more blackouts



A FINAL REMINDER!

Eskom average tariff vs. inflation (CPI)



CONCLUSION

- Grant Eskom NOTHING (last 10 year's increase has been too generous!)
- Nersa must tell the DoE/Eskom to:
 - establish an independent grid
 - have competing power generation & sell power stations
 - deregulate to increase competition
 - Reduce staff & sell assets to pay for debt
 - create an energy market
- This will achieve energy security



THANK YOU

Terry Markman

terry.markman@arup.com

082 411 0911



Progress through freedom

2007

2017

42 618



TOTAL
INSTALLED
CAPACITY (MW)

44 134



218 120



TOTAL
ELECTRICITY
SALES (GWH)

214 121



39 389



REVENUE
(R MILLIONS)

177 136



18



AVERAGE
SELLING
PRICE (C/KWH)

83,6



117,4



COAL
PURCHASES (MT)

120,3



9 451



COST PER
EMPLOYEE (R)

33 178



32 674



EMPLOYEE
NUMBERS

47 658



40 455



DEBT SECURITIES &
BORROWINGS
(R MILLIONS)

355 300

