

ESKOM'S RCA APPLICATION MYPD 3 – 2014/15 to 2016/17

Presentation to NERSA

By

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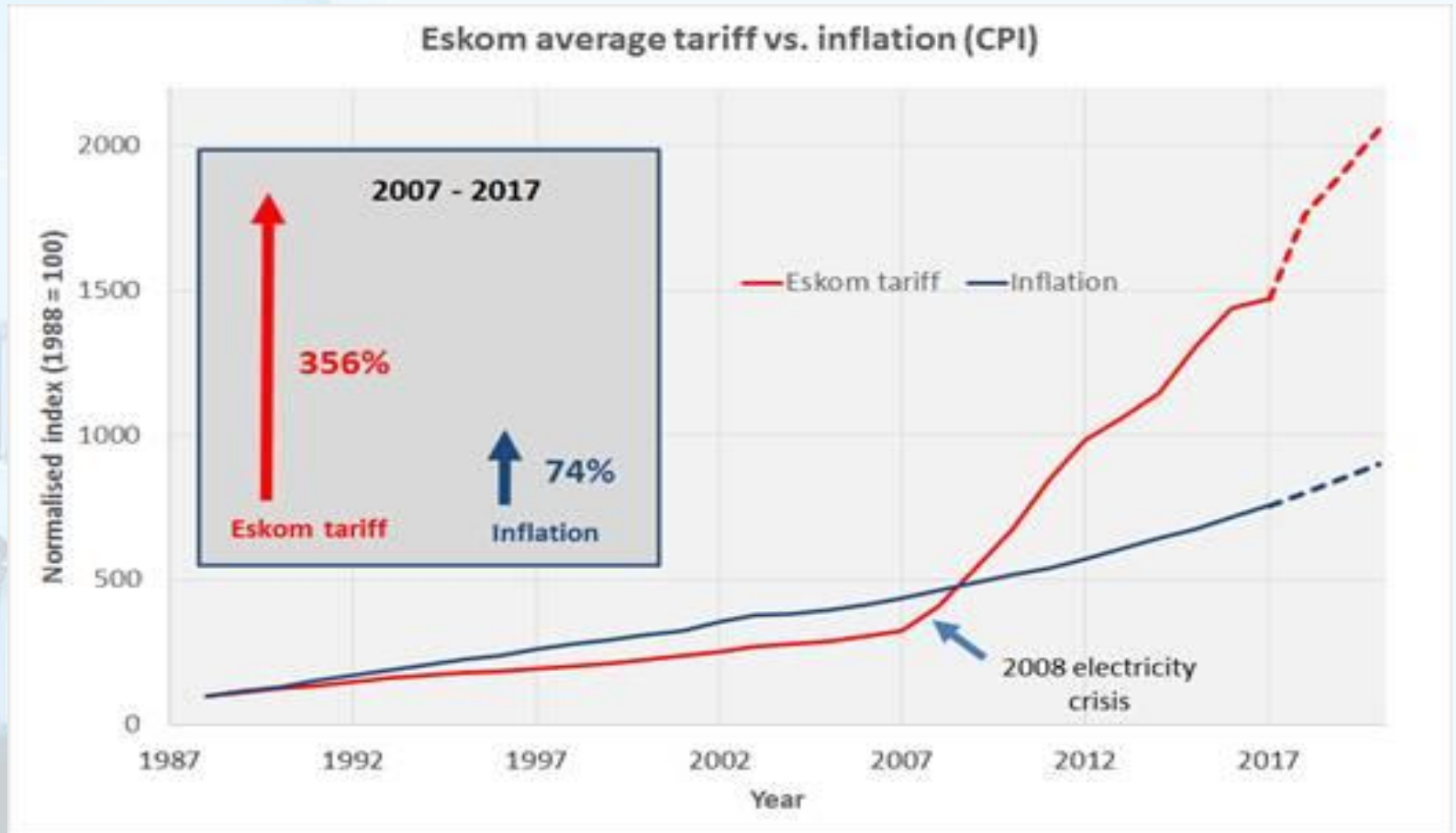
FREE MARKET FOUNDATION

- 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 R67bn!!

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WHY THE HUGE TARIFF INCREASE?

- Gross inefficiency
- Poor management
- Maladministration
- Corruption
- High wages
- Medupi, Kusile overspend
- Etc

IMPACT ON THE COUNTRY

- untold damage
- reduction in manufacturing and mining investment
- companies not investing
- Reduction in GDP and FDI
- jobs lost
- in short – a disaster

WHAT SHOULD ESKOM GET?

- Energy Intensive Users Group (EIUG)
 - RCA applications capped at R40.5 bn. Better than R67bn!
 - grant NOTHING until costs have been prudently & efficiently determined.
- 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

- EIUG - R44bn relates to lower sales volumes
- 101 Economics - increase in tariffs =
lower demand = lower revenue
- Not R67bn, or R40.5bn, or R20bn.
- Grant them NOTHING
- That is what Eskom deserves

WHAT SHOULD ESKOM GET? cont

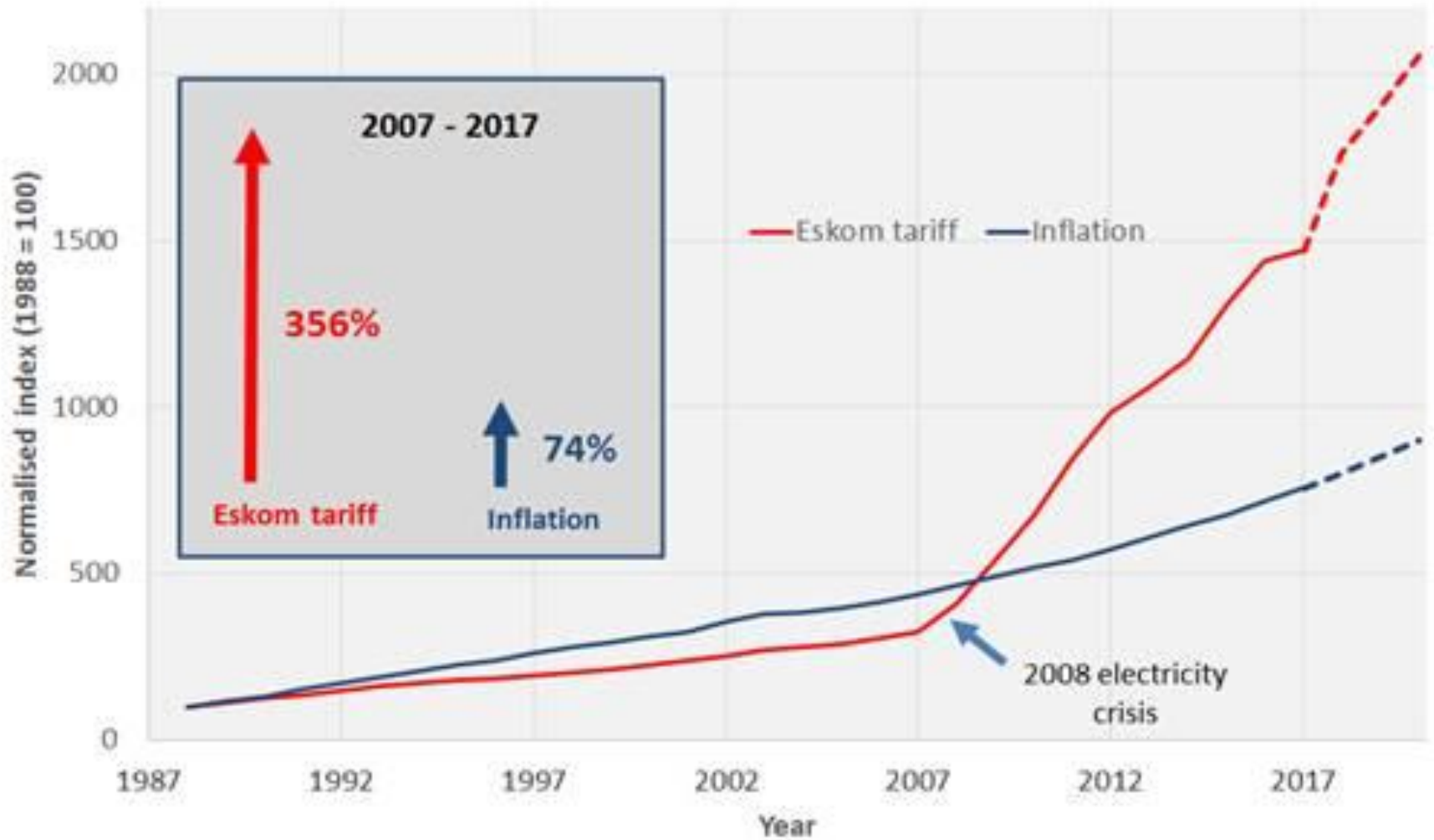
- Any grant says ‘well done please continue with:
 - Gross inefficiency
 - Poor management
 - Corruption
 - High wages’
- Send Eskom a strong message –

ENUFF IS ENUFF

ESKOM MUST DO WHAT COMPANIES IN FINANCIAL TROUBLE DO

- reclaim stolen money
- claim against any illegal contracts
- become efficient
- reduce their wage bill
- sell off assets
- 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)
- Lets get sane

WHAT SHOULD NERSA DO?

- Tell the Dept of Energy, Treasury, Public Enterprises to address the fundamentals
- Also tell NEDLAC – they are reviewing Eskom’s business model
- We need an independent and objective organization to tell the government what the solution is.
- Nersa could 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
- Independent distribution grid
- Deregulation to increase competition
- Sell assets to pay for debt
- Create an energy market
- Nothing new – included in 1998 White Paper, ISMO Bill, NDP
- This will achieve energy security

TRANSMISSION GRID

- Create an independent transmission grid
- 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 generation entities
- Sell off power stations by tender
 - include old power stations (at any price)
- already 5 to 10% is in private hands
- private sector generation is efficient, reliable & well maintained
- They 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

DISTRIBUTION GRID

- Create an independent grid (PPP via tenders)
- Equal access to the grid – equal treatment
- Introduce competition wherever possible
- Competing suppliers at local level (consumers must be able to buy from whoever and change their mind e.g. in New Zealand)

DEREGULATION

- to increase competition
- allow anyone to produce electricity and sell it 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

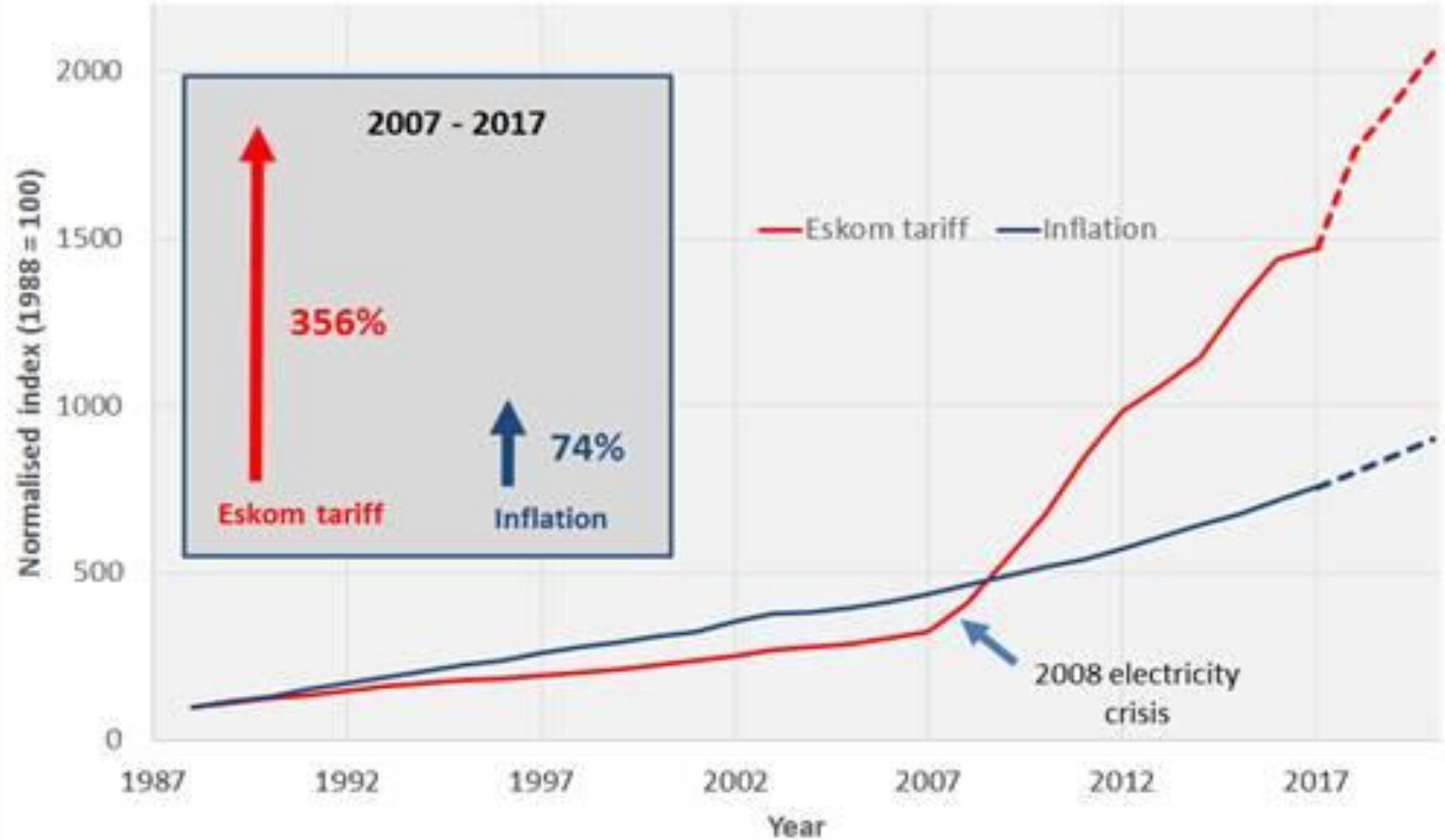
ENERGY SECURITY

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



A FINAL REMINDER!

Eskom average tariff vs. inflation (CPI)



CONCLUSION

- Grant Eskom NOTHING (last year's increase of 2.2% is too generous!)
- Nersa must tell the DoE/Eskom to:
 - establish an independent grid
 - introduce competing power generation
 - sell off power stations
 - establish independent distribution grids
 - deregulate to increase competition
 - sell assets to pay for debt
 - create an energy market
- This will achieve energy security



THANK YOU

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