Comments on Eskom’s 2018/19 Revenue Application

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Eskom’s social and economic responsibility

- Eskom is a state-owned public utility
- it provides a crucial commodity
- it has a monopoly

- as a result: it has a clear social and economic responsibility

Eskom’s attitude

A social responsibility awareness is not evident from the application.

Instead, Eskom’s attitude is simply one of:

- we are selling less (13.5% decrease in standard tariff sales)
- our costs are increasing (3.6% increase in standard tariff costs)
- and therefore the consumer has to cover the revenue shortfall

Defects and omissions in application

- factual background
- strategy/policy
- economic/financial analysis

Defects and omissions: factual background

No meaningful information is given on:

- cost and financing implications of very expensive new power stations
- cost implications of an ever-increasing surplus generating capacity
- extent and effect of cost-containment measures, especially in light of stagnant demand and surplus generating capacity

Grossly inaccurate/outdated information is given on

- GDP forecasts

Defects and omissions: policy/strategic issues

The application contains no strategic analysis of the financial effects of:

- continuing stagnant demand (with little expectation of a short-term change)
- an ever-growing surplus generating capacity (there was already a surplus in January 2017)
- the integration of increasingly cheap renewable energy

Defects and omissions: potential nuclear new build

The only reference to the potential nuclear new build is that if it is initiated, tariffs would need to rise even faster to cover the capital expenditure.

There is no analysis as to whether this would be affordable or whether it is actually needed, against a background of stagnant demand and surplus generating capacity.

Defects and omissions: macro-economic analysis

An astonishing choice is presented to the consumer in the application:

- either accept the tariff hike or make peace with another sovereign downgrade by the ratings agencies

Effect of defects and omissions

The defects and omissions in the application are substantial.

In addition, given a fundamentally changing market, it gives no visibility as to the future, even if this only concerns a one-year tariff application.

The obvious question arises: is Eskom's current business model sustainable ?

Legislative requirements for NERSA decisions

The National Energy Regulator Act, no. 40 of 2004, expressly requires that a NERSA decision must be:

- in the public interest
- clearly explained as to its factual and legal basis
- clearly explained as to the reasons

The application creates a huge problem for NERSA

A decision can only be taken on the basis of adequate and accurate information, relating not only to current circumstances but also how Eskom is dealing with a fundamentally changing market.

The application does not reflect an awareness of social responsibility.

If the basis of the decision is based on inadequate and inaccurate information, NERSA runs the risk of a judicial review for taking an irrational decision.

What is NERSA to do?

Send the application back to Eskom, with the request for adequate and accurate information which would enable it to take an informed and rational decision.

Text of full submission

The full text of the Helen Suzman Foundation's submission can be found on our website: www.hsf.org.za