



Presentation to NERSA

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Kruger Lowveld Chamber of Business and Tourism NPC

Who is KLCBT?

- We represent approximately 1000 business members consisting of Micro-, Small-, Medium- and Large enterprises in all industries and almost half are tourism related.
- We are the official voice of business and tourism in Ehlanzeni district

About our region

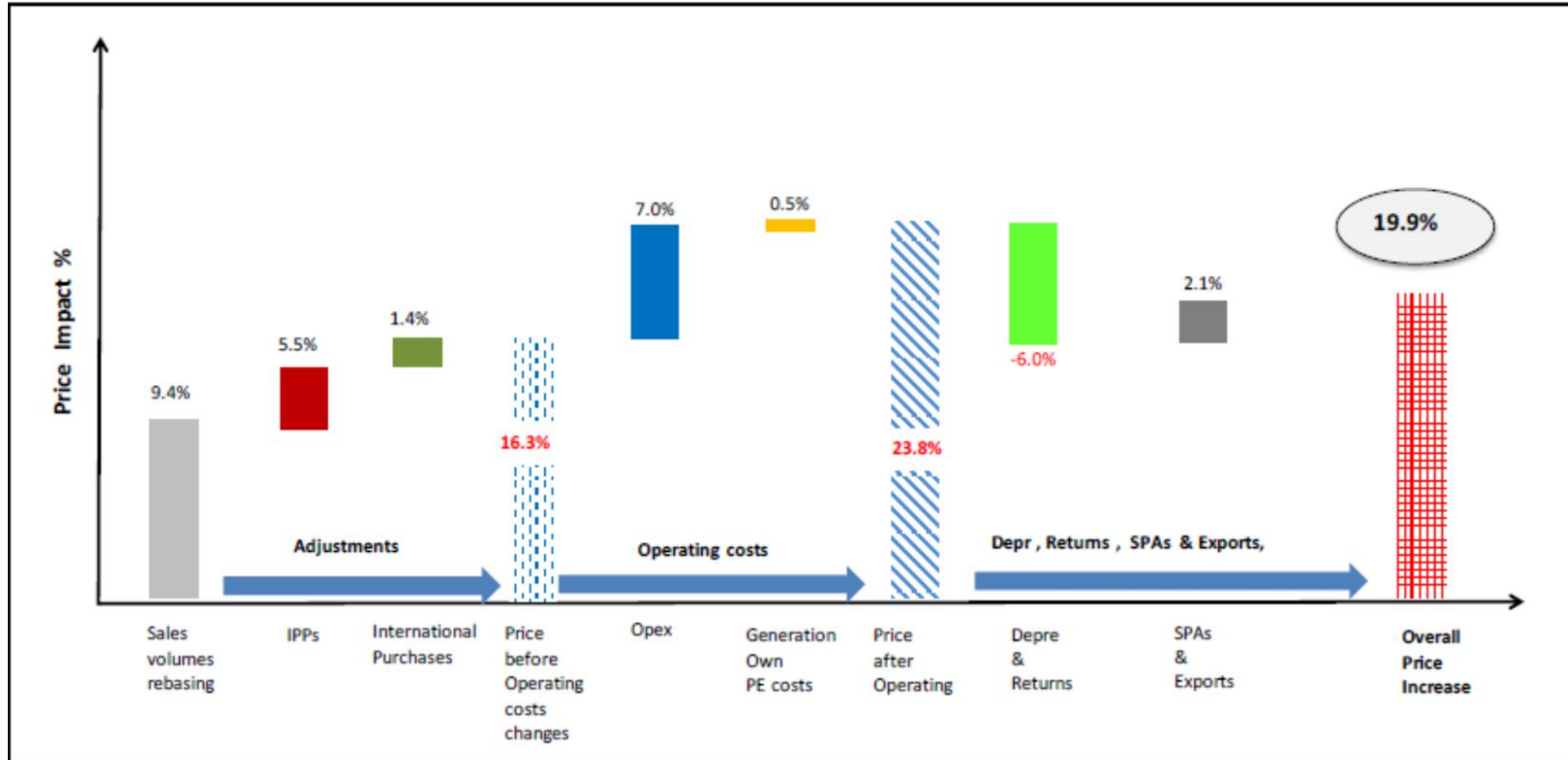
- Mbombela City's population grows with 2,3% per annum while the national economic growth is virtually stagnant at 0,7%
- Already 1/3 of the population is classified as poor and surrounding areas like Nkomazi and Bushbuckridge which rely on Mbombela's infrastructure and economy, have a poverty rate of 50%.
- This trend will only see more devastating statistics in future years and for that reason we need to protect the survival of each and every business
- For this reason we also need to make the cost of living as low as possible for poor people to survive and not be tempted to turn to a live of crime, which includes theft of electricity

Objection to an increase of 19,9%

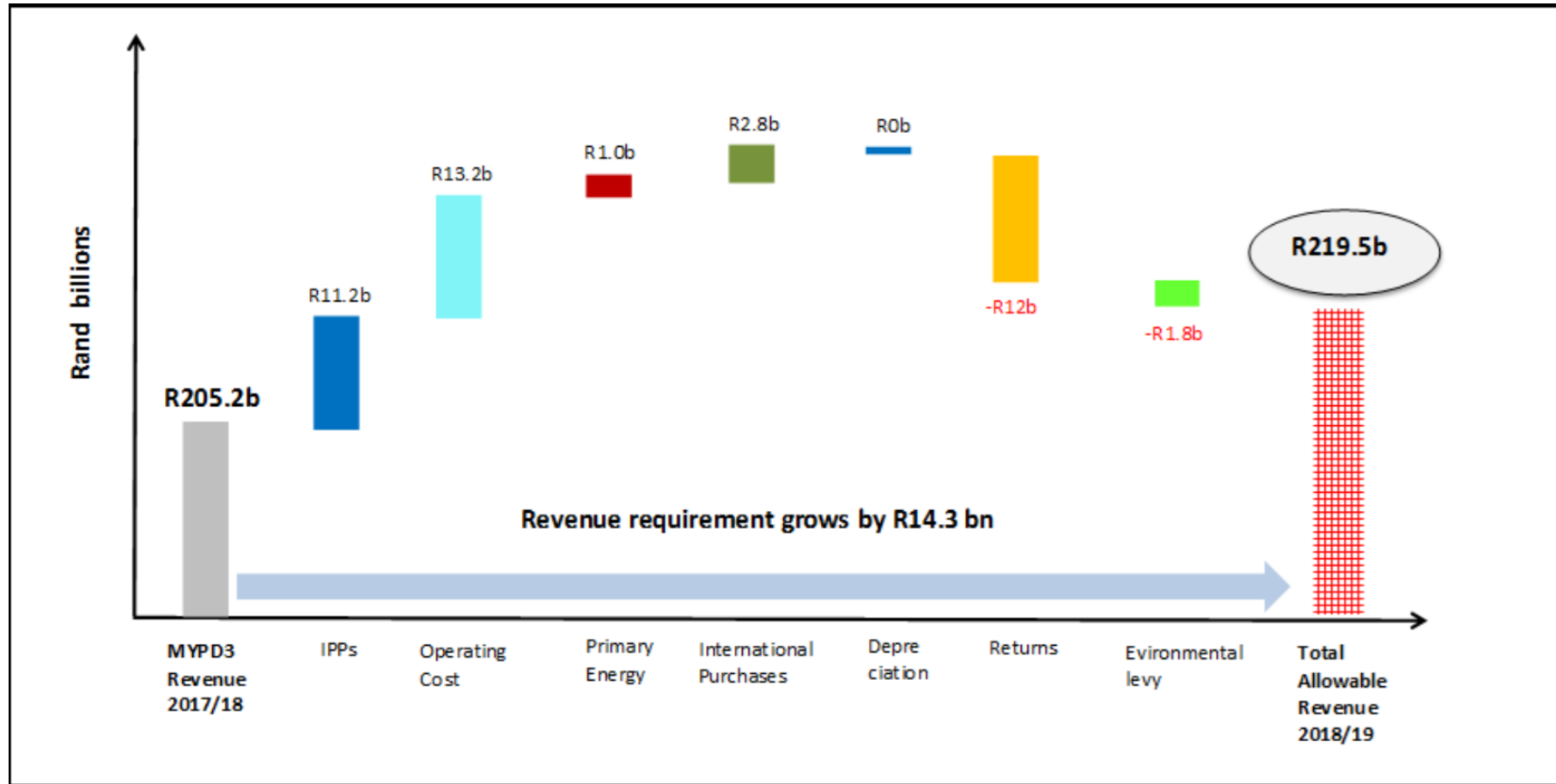
We will be presenting 6 reasons why we oppose the increase of 19,9%

1. Incorrect calculations
2. Over supply of electricity
3. Effects of corruption
4. Government intervention is required
5. Contradiction with Eskom's core strategies
6. Electricity is a high cost component of business

1. Incorrect Calculations



If calculated correctly, required increase is 6,97% !



Required increase =
R14,3 billion
Current Allowable
Revenue = R205,2 bn
Required Allowable
Revenue = R219,5 bn

Calculation:
 $R14,3 \text{ bn} / R205,2 \text{ bn}$
Expressed as %
= 6,97%

2. Over supply of electricity

- The most basic economic principle is that of Supply and Demand. If there is an over supply, the price comes down. If there is a short supply, the price goes up...
- We agree it is an essential service and this law cannot be strictly applied, but this was used as an argument to apply for price hikes in previous years.
- Why should the consumers pay for an over supply???

Over-supply is a result of...

By Eskom's own admission in their application, the over-supply is a result of:

- Decrease in reliance on Eskom electricity;
- Lower competitiveness of SA industries internationally;
- Low investor confidence in Eskom and SA, etc.

Why must consumers pay for this? It was as a result of Eskom's poor performance that we are still bearing the brunt for the exact same reasons;

9,4% of the proposed 19,9% increase is to pay for over-supply because of a lack of ability to sell electricity on the part of Eskom...

3. Effects of Corruption

This cannot be ignored... after recent revelations in the news that amounts to R Billions...

- The percentage presented as a requirement, will include the down payment of loans to development banks which was squandered instead of paying for the construction of new power stations, as was intended.
- It is obvious from financial statements that Eskom cannot repay these loans and it should not be the burden of the consumer to pay for the mistakes and corruption of high level Eskom officials.

4. Government intervention is required

- Eskom is a critical service provider to all businesses
- If we wish to restore investor confidence and business confidence in South Africa, Eskom should operate efficiently without fear of being shut down
- If SAA could receive a rescue package (which is certainly not as critical to the economy) so can Eskom

We feel that government should rescue Eskom in order to make payments of these loans without increasing of rates to cash strapped consumers and businesses.

5. Contradiction with Eskom's core strategies

It is one of Eskom's core strategies (per recent financial statements) to:

“ensure reliable electricity supply...supported moderate electricity price increases through cost efficiencies across the business.”

- Eskom could over a number of years not ensure reliable electricity supply which lead to serious economic factors
- 19,9% increase is not modest by anybody's definition
- Cost efficient management has only seen an improvement very recently

6. Electricity is a high cost component

- Electricity is a high cost component of most businesses and a sudden price hike will have a devastating effect on the already stagnant economy (as we can see from past experience)...
- Eskom should turn to government for support, the private sector is depleted!
- The merest hint of a price hike will lead to a massive amount of job losses – it is the only place private sector can still cut costs
- Small and medium businesses employ nearly 65% of SA's employed people – it is critical that these businesses are supported and not further burdened by the increase of critical costs

Our recommendation...

- We accept that the real required increase is 6,97% if calculated correctly – this amount is almost reasonable
- We do not accept the high burden as a result of a lack of sales included in the requested increase
- We accept that costs have gone up to a reasonable degree, but we cannot see any reason why the rate should be put up by more than the inflation rate
- We will accept no more than 5.5% as reasonable
- We insist on government intervention to rescue Eskom from the sins of the past
- We insist Eskom makes a better attempt to increase their export sales to sell the surplus electricity and not make us pay for the surplus

In conclusion...

If Eskom cannot export the surplus, lower the rate to South Africans and we will use more electricity – we will rather have the option to use the surplus we are paying for, then just paying for it and have no benefit!!!

It will be an important and welcome stimulus to the economy and will increase investor confidence and will create jobs and will encourage new business and it is in your hands to make this difference...

THANK YOU!

