

## EXECUTIVE SUMMARY

Majority of South African citizens are oblivious to the reality that they are in most if not worst grip of crisis that has significant negative implications for every one of us irrespective of race nor political allegiances. Electricity crisis possess a devastating future possibility for the country ranging from households to the businesses electricity usage. Frankly the set challenges becomes unavoidable if we do not address the current state of affairs in relation with the electricity consumption and usage. Our country's failure to implement some of the policies contained in the 1998 energy white paper due to reluctance normally brought by acts of omission by certain political parties as to their ideological interests. These country electricity crisis is in two folds, we don't use electricity to enhance the economic growth instead we use it to supplement the municipal revenue base and further augment corrupt activities which proves to be the main obstacle of Eskom stability. Electricity affordability and reliability becomes non-negotiable and strictly no go area. With the world fast approaching the fourth industrialization which makes us no exception it means the electricity usage would be prime factor in placing countries competitiveness in global markets. These further prove electricity affordability will have negative implications on us now and in the future. In determining electricity tariffs we ought to bear in mind that electricity consumption and usage has shifted from light, heat only kennel to a greater commonage of health, education in naming few.

The proposed R219.5 billion revenue increase by Eskom through national energy regulator of South Africa (NERSA) should be considered to be misleading since all these are as results of utility's incompetence, mismanagement, inefficiency and failure to curb off corruption in its system. In the recent history Eskom has been reduced to a looting hub by politicians and their cronies which makes it difficult for our economy to best perform. The monopolized electricity sector need to be restructured to allow independent power producers (IPP) into the national grid. The introduction of the IPP's into the national grid would bring healthy competition into the sector and further bring financial relief to consumers since electricity has become more and more expensive.

The multi-year price determination (MYPD3) has evidently set a wrong precedence of allowing Eskom to increase electricity tariff wayward over the country's inflation rate. This set legislation that allows the application of the MYPD3 need to be revisited to help bring competitiveness and market related increases in future. Our country's economy is craving cheaper electricity tariff for it to best grow to its full potential. It is indeed worrisome to have the financial sector leading the country's economy in terms of gross domestic

product (GDP) contribution, this simply spells to us that the vast majority of our people depend on credit to meet the end needs of survival in the country.

Electricity usage and consumption has the potential of emancipating our people from poverty, inequality and unemployment if best applied.

## Introduction

The world economies are heavily reliant on energy that makes South Africa no exception in that regard, and correctly so energy is an indispensable force driving all economic activities. In other words, the greater the energy consumption the greater the economic activities in the country, and as a result a great economy emerges. A healthy economy means that the country becomes investment friendly destination to both domestic and international investors, which spells growth in business expansion and job creation. South Africa today is seen as one (1) of the greatest developing nations in Africa despite the setbacks brought by the state capture, corruption in naming the few. The country endowed natural resources (coal) and potential energy resources (wind, sun) however there is a steep challenge in making sure that electricity is accessible to all citizen of the country. In not discarding gains made after 1994 in connecting south Africans to the electricity network, with the direction the country is taking such gains would soon be short-lived with the looming electricity blackouts which would be brought by nothing but high electricity tariff prices. There are set fundamental challenges which includes but not limited to socio-economic status, GDP growth and unwillingness to introduce IPP which will expand energy sources.

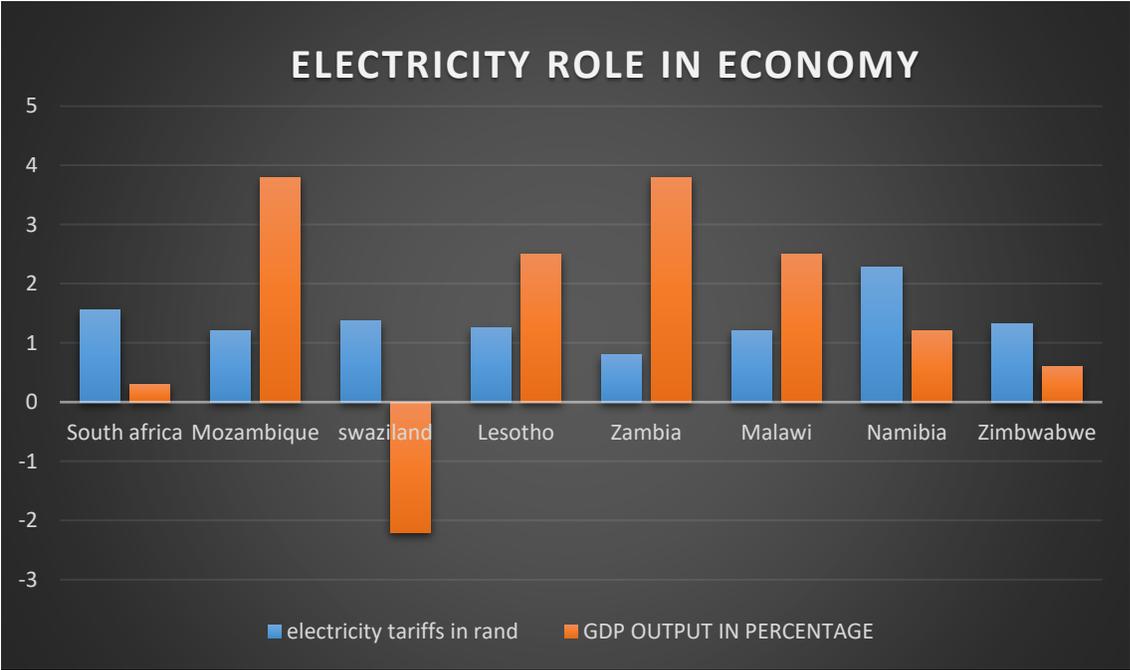
### **THE ROLE OF ELECTRICITY SECTOR IN THE ECONOMY**

The electricity industry contributes to the economic growth in two ways. First, electricity is an important sector of the economy that creates jobs (Directly and indirectly) and value by generating, transforming and distributing electrical energy goods and services throughout the economy. It is this sole reason we calling for the introduction of the independent power producers (IPP) with our country's economy craving growth and job creations to help root out poverty, unemployment and inequality. Electricity underpins the rest of the economy as it is the key input for nearly all goods and service which means all economic sectors best rely on electricity to best perform whether manufacturing, mining, banking (finance) or agriculture is. It is in this vein we seek affordable and reliable electricity which would best attract investors and further be used as an economic catalyst.

It is common knowledge across global communities that electricity usage and economic growth go hand in hand. If investments by development finance institution (DFI) are to achieve maximum impact, the following key questions are often asked: Is increased electricity supply leads to economic growth or vice versa. The diplomacy in responding to that question would constantly be aligned with affordability and reliability in trying to make sure the relationship between the two does not weigh on the other at the expense of the other.

In trying to keep the balance between the economic growth and electricity supply by ensuring affordability and reliability, most countries have decided to separate electricity generation away from transformation and distribution which allows more power producers to supply electricity in one central

national grid. This is not the case with us South Africa where electricity is monopolized throughout the electricity value chain which has opened a huge flood gate of looting and corruption in the sector. This practice of introducing independent power producers into the grid has seen Rwanda slash the electricity tariff by almost 50% from 0.24\$ to 0.12\$ instantly. There is a good trend that shows that countries where electricity is sold cheaper the GDP growth prospects are good. This can be substantiated by growth patterns of GDP growth output in relation with electricity tariffs in some of the SADC countries.



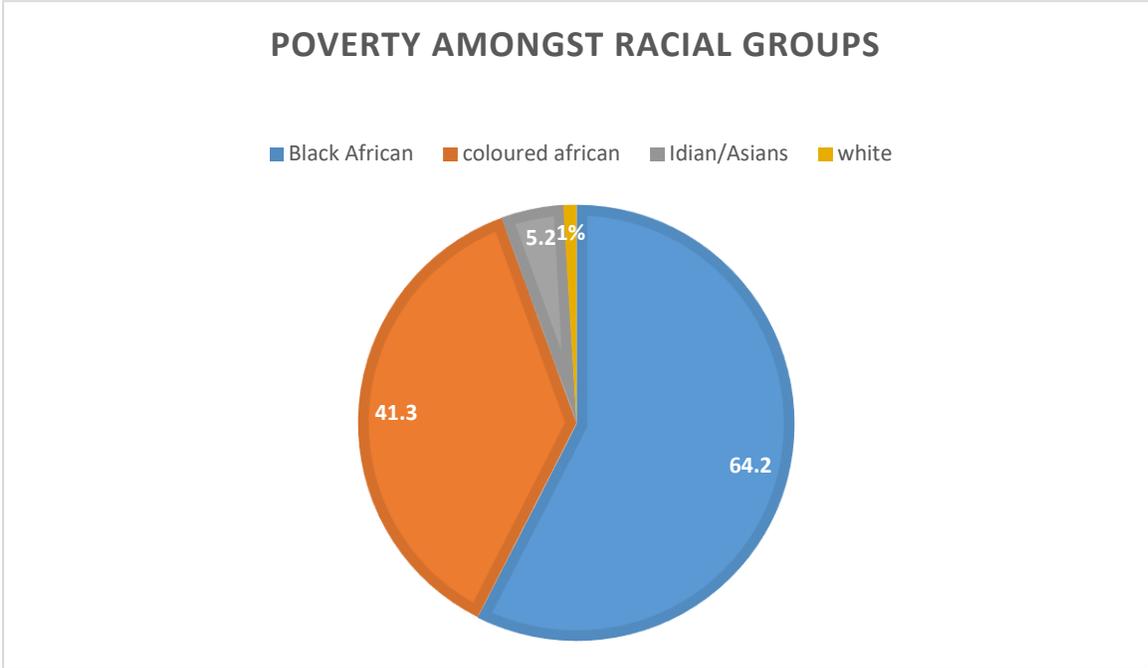
South Africa's economy was traditionally rooted in the primary sectors such as mineral resources and favorable agricultural conditions which is not the case due to the drought we recently experienced as a country and more policies introduced in the mining industry that makes it difficult to invest in South Africa. For some time now our country's economy drivers has been the tertiary sectors such as communication, tourism, and wholesale & retail trade with the secondary sector in manufacturing finding it difficult to best pronounce itself in the market due to tough labour market, high electricity tariffs. The case which was brought by BORBET SA (PTY) LTD and others against the national energy regulator of South Africa (nersa) and others simply tell us the higher the electricity tariffs the tougher it is to do business in South Africa. That was the sole reason on the part of the applicants in the case challenged the rationale of the multi-year price determination (MYPD3). We can also use the poultry industry as example to substantiate our statement of how difficult it is to do business in South Africa where we find imported poultry products selling cheaper than our own poultry products. With the fourth industrialization catching up on us as a country our economy has since shifted to what is now known as knowledge-based economy with a greater focus on technology, e-commerce and financials. With the financial sector leading in terms of GDP contributions that simply indicates to us that most South African citizens are living on debt to meet the end needs.

It is evident before us all that our country's economy is breathing through one nostril which is monetary policy driven that has seen more people calling for the scoop of the reserve bank to be extended in a quest of lessening the gap between the monetary and fiscal policies in this country. We calling on those in authority to consider electricity as an economic catalyst not the corruption heaven since it has proven to be a key economic driver.

### SOCIO-ECONOMIC CHALLENGE

South Africa is face with a steep challenge of tripartite alliance in poverty, inequality and unemployment. The country's unemployment rate sits at an all-time high of 27.7 %, with youth constituting 38.6% of the total unemployment rate. The historical background of extreme inequality across racial groups which saw the white affluence and black slavery under the then apartheid government, is cited as the main contributor to our current predicaments. This happens despite effort be made by our new democratic government of trying to lessen the gap between the two racial groups through policies such as broad-based black economic empowerment (BBBEE). The skills shortage remains another hurdle which calls both the private and public sector to join hands in addressing it.

The country's poverty rate has since escalated to over 55, 5% from 53.2% in a period of five (5) years from 2011, this figures were obtained using upper-bound poverty line(UBPL) Of R992 per person per month. Poverty remains racialised in South Africa



Although the government intervention programs through South African social security agency (sassa) goes a long way in trying to address social economic shortfalls it still leaves millions and millions of South African in the poverty nest.

The South African economy has in recent history notably been driven by a combination of both international and domestic factors such as low and weak economic growth, continuing high unemployment levels, lower commodity prices, higher consumer prices (especially for electricity, transport and food), lower investment levels, greater household credit dependency and policy uncertainty. This period has seen the financial health of South African households decline under the weight of these economic pressures and, in turn, has pulled more households and individuals down into poverty.

**The South African economic prospects in fair honesty do not show any signs of resurgence in any foreseeable future, this happens despite it bolstering a very extremely diversified economic streams which can simply resurrect it from the current status.**

- **Manufacturing:** The country's tough labor market and expensive electricity tariff has seen the sector struggling against the cheap imported goods from china. These has since seen investors (GENERAL MOTORS) leaving the country due to tough conditions of doing business in South Africa. It worth to be noted that the sector was leading GDP contributor till recently when electricity tariffs bloated out of proportion.
- **Agriculture:** The country is plagued with an unprecedented severe drought which makes it difficult for the sector to perform to its maximum potential. The alternative irrigation system as opposed to rain requires electricity that happens to be expensive in South Africa which results in high food prices.
- **Mining:** The sector is faced with low commodity prices, tough labour market and further stringent policy which sees it having had to transform from traditional mining formula to a modernized mining formulas which improves productivity through auto-machinery (electricity orient), for it to meet governments requirements of reducing environmental impacts through its waste products.

**Electricity remains the only treasurable sector which will help ease the situation we faced with as a country. The cheaper electricity tariffs preserve the potential of building a prosperous economic activities across all economic streams. The failure to best regulate electricity tariffs and usage spells a bleak future for all of us.**

The South African electricity tariffs has theatrically outpaced the inflation rate in the past ten (10) years between 2007 and 2017. In that period electricity tariffs have increased by about 356% whilst the inflation had increased just a percent below of three quarters (74%) in the same period. This means electricity tariffs increased 4.8 times faster than the inflation and folded 3.56 times as compared to the initial cost.

The projected inflation output average for year 2018 is 5.5%, the proposed 19.9% electricity tariff increase will result in electricity tariffs outpacing the inflation by 14.4% which is 3.62 times faster than the inflation. With 42% of Eskom total revenue base coming from municipality this could mean a total different story for consumers whom are buying electricity through municipal electricity utilities (MEU) such as centlec.

Policy uncertainty and lack of political will has best contributed to the country's inequality. There is no clear electricity policy in the country which has allowed the MEU to best perform its duties as "Electricity Brokers". These utilities are using electricity to supplement the municipal revenue base by risking electricity supply to consumers. One of the main contributors to Eskom revenue losses are MEU whom owe Eskom a total of R11 billion. These monies were wasted on paying thousands and thousands of passive councilors throughout the country by municipalities.

**There is a huge electricity vending point's backlog across the country which subsequently placed our people in an unbearable position of having had to pay extra 20% in purchasing electricity.**

## Monopolistic Eskom

In 2004, the South African government recognized that a crisis was pending and urgently instructed the state-owned monopoly Eskom to build new power stations. This may have been construed to be in conflict with the decision to restructure the electricity supply and to introduce independent power producers (IPP) into operation, but this was not the case. The introduction of IPPs decision was simply postponed not that it was reversed. Eskom was strategically mandated to increase generation capacity as quickly as possible, in a quest to avoid the impending crisis in the country.

The systemic failure by Eskom management has dismally failed South Africa. Instead of delivering adequate electricity capacity to help curb amid electricity crisis in the country and further boost our economy, a get rich scheme was adopted by Eskom executives, board members and politicians. The scheme has resulted in billions of Rands being lost through Medupi and Kusile power stations project. Losses incurred in production and projected operational cost due to delays of introducing these two power stations in to the national grid as mandated by our country's government.

The original date for production by Medupi's first unit was January 2010; it was further delayed to January 2014 for it to only be introduced to the grid by March 2015. Due to all the delay, Eskom lost more than five (5) years of revenue from a total 4 764 megawatt (MW) station in Medupi, which amounts to about 86bn kilowatt-hours (kWh) of energy. At the then conservative figure of 50c/kWh, that amounted to a loss of over R43 billion in revenue that could have been used to offset electricity price increases.

The cost of unserved energy to the economy (the losses suffered in the economy due to unavailability of energy) at R45/kWh which was the global average of the impact the load shedding had on economy in 2015. Given that 86bn kWhs were unserved in that period a total estimated cost of economy losses was R3.87 trillion.

## Conclusion

1. There is a clear evidence that the gross mismanagement, inefficiency, corruption at Eskom accompanied by political unwillingness that had severely cost our country's citizens and economy.
2. There early introduction of IPPs into to our country's national grid would lessens the burden brought by the monopolistic Eskom on our people and economy. This would best bring the versatility of electricity of being both the catalyst and independent economic sector in our country's economy.

3. The said proposed increases have no prospects of sustaining our livelihood; in fair honesty there are of a self-infliction nature on part of Eskom.
4. The trend of not regulating electricity tariffs in line with the inflation rate and not creating a national policy on electricity that will seek to root out inequality that it is brought by “Electricity Brokers” can have nothing but dire consequences for the country. There are indeed looming electricity blackouts in most if not all low earning households and individuals due to high electricity tariffs that our people are subjected to.
5. The high electricity tariffs have the potential of erasing all democratic gains of connecting previously poor South African in the country’s electricity network and further deepen inequality.

**WE SUBMIT BEFORE THE PANEL A 0% TARIFF INCREASE**