



**MPUUMALANGA**  
Landbou/Agriculture

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**NERSA: ESKOM'S MYPD3 RCA YEARS (2017/2018)**

**APPLICATION AND MYPD4 APPLICATION FOR THE 2019/20 TO 2021/2022 FINANCIAL YEARS**

**Introduction:**

Mpumalanga Agriculture is the provincial affiliate from Agri SA in Mpumalanga.

At our side we host 35 Farmers Associations across the province, 6 provincial Commodity Organisations as well as a couple of Corporate Members. On behalf of our members, Mpumalanga Agriculture today will do this presentation with the main objective to contribute to the sustainability and profitability of the agricultural sector.

In regards Eskom's **MYPD3 RCA YEARS (2017/2018)**

**APPLICATION AND MYPD4 APPLICATION FOR THE 2019/20 TO 2021/2022 FINANCIAL YEARS at Nersa**

Stakeholders and affected parties, including those in the agricultural value chain, were requested to submit comments regarding the impact of the power utility's requested price increases on the Agricultural sector.

Mpumalanga Agriculture welcomes the opportunity to comment on Eskom's application.

## Contribution of Agriculture sector to the economy of Mpumalanga province

- More than 68% of Mpumalanga surface is used for agriculture.
- A large proportion of South Africa's grain, citrus, sugar and soft fruits come from Mpumalanga. The province is an exporter of macadamia nuts, a sector that is growing at a remarkably fast pace.
- The province's rich agricultural produce is used by several companies in the processing industry.
- We also have pulp and paper plants, fertiliser facilities, textile manufacturers and sugar mills.
- The Fresh Produce Market in Mbombela is planned to accommodate investors who want to start factories to manufacture products such as juice, or packaging firms.
- The agriculture sector contribution to the economy of the province is 3% while it represent almost 9% of the national agriculture production.
- The contribution to employment by the agricultural sector in the province is more or less 20%.

## **Contribution of Agriculture sector to the economy of Mpumalanga province**

- In 2015, 49% of the population lived in former “homeland” regions, compared to 27% for the country as a whole.
- The people of Mpumalanga can only improve their situation if they become economically active, and if those people that are already economically active can provide more job opportunities. Within the agricultural sector, and especially within irrigation farming, jobs can be provided at the lowest capital input of all economically active sectors in Mpumalanga.
- The agricultural sector makes a large contribution to the economic activity of the province. This sector also has (as shown) widespread forward and backward linkages, especially to labour intensive sectors. Furthermore the agricultural sector is not only a haven for the jobless and the poor, but it also has potential for the development of entrepreneurs, presenting an opportunity for entry to the formal economy.

## **Impact of electricity on agriculture sector and rural areas.**

- We need to keep in mind the fact that farms are multi-output production units. So we need to move from a production function to a profit function approach.
- More specifically, the potential negative impact on irrigation-reliant and energy-intensive industries like the horticulture, dairy, poultry, grains and agro-processing industry is of crucial importance, when considering Eskom's RCA applications.
- The agriculture sector plays a crucial role to ensure that national food security requirements are fulfilled.
- Sharp increases in electricity costs as suggested by Eskom will put agriculture's cash flow under pressure, as electricity cost is a major variable cost contributor. The electricity bill is 5% and more of the total expenditures on the farm.
- Remember, Agriculture is a price taker and does not have the luxury of a regulator clearing account such as Eskom to make good on revenue losses.

## **Impact of electricity on agriculture sector and rural areas.**

- According to the NERSA Eskom Retail Tariff and Structural Adjustment (ERTSA) methodology, an average price increase is applied on all tariff rates. This includes network charges.

Therefore, a MYPD4 tariff increase will have an impact on agriculture through two channels:

- Firstly, farmers will pay a higher tariff for electricity used; and
- Secondly, pay a higher fee in terms of the electricity line fees, which will also increase in tandem with electricity tariffs.

Effectively, farmers will be hit by a double increase in their electricity input costs. In some cases, following efficiency and energy saving measures, farmers pay more for their line fees than for the actual electricity consumed. A further increase in tariffs will likely compel some farmers to move off-the-grid. This will have a spill-over impact on rural communities that depend on farmers' contributions to line fees, which help to secure the availability of electricity in rural areas.

- The affordability of electricity do have a direct influence on the safety and security situation in rural areas.

## **Recommendations**

- While reform plans are being developed and implemented, Eskom should not be allowed to transfer the costs of mismanagement to the consumer.
- South Africa can not carry on with the Status Quo in regards the model for power supply by Eskom in its current form. The current way of doing is clearly not sustainable. R50 billion shortage on cash flow for the next financial year and debt levels of R400 billion plus with the potential to increase to R600 billion cannot be considered sustainable in any language.
- Serious consideration must be given to sell off a portion of Eskom to create a Public Private Partnership.
- The monopolistic stronghold that Eskom has over the power supply chain must be terminated. Competition has never been bad for any industry. SA need an independent electricity network with a functional structure that accommodate the private production of electricity.
- To our mind normal business practise in a case like these of Eskom will rather be to reduce the price of the commodity you sell in an effort to increase sales.
- Give more effort in the management of coal contracts as well as the management of coal transport in regards the reducing of costs.

## **Recommendations**

- Eskom need to increase the level of expertise of personnel.
- Need to re-capitalize the debt and park it on the long term. At the same time we need to privatise part of Eskom that will create new capital.
- Allow private sector to take up the space in energy shortage.
- Government need to restructure the Eskom business model immediately.
- Eskom need to produce electricity more effectively at lower costs. Medupi and Kusile at this stage are the most expensive electricity producing structures in the world. To worsen the picture is the fact that these two power stations do not produce enough electricity to allow maintenance at the old power stations.
- Government need to give attention to both debt relief and tariff increases simultaneously.

## **Conclusion**

Given that the situation appears to be out of control, solutions must be looked for on all fronts. Increasing efficiency, reduction in operational costs, reduction in the personnel corps, and re-evaluation of existing contracts and likely also the level and need of current cross subsidies and special pricing arrangements should be considered. Coal contracts should also be re-evaluated in view of pricing arrangements, and although not the preferred route, export taxes on coal could also be considered.

Thank you for the opportunity to give some inputs from the agriculture sector. Clearly the responsible departments have to think out of the box if we want to see Eskom survive and if we are serious to grow the SA economy.

We wish you wisdom to solve this one.

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Mpumalanga Agriculture.