



## **NUMSA Submission to NERSA on Eskom's third multi-year determination (MYPD3) Regulatory Clearing Account (RCA) applications for year 2 (2014/15), year 3 (2015/16) and year 4 (2016/17) totalling R66.6 billion**

**14<sup>th</sup> May 2018**

### **NUMSA – WHO ARE WE**

The National Union of Metalworkers of South Africa NUMSA is a trade union and since 2009, we have witnessed the impact of the deep global crisis of capitalism in the manufacturing sector. NUMSA has witnessed the haemorrhaging of jobs, plant closures and retrenchments. We have also seen the downward variation of conditions and benefits of workers and the casualization of labour. At the centre of this crisis, especially in small, medium-sized companies has been the uncompetitive price of Eskom electricity tariffs.

NUMSA represents 360 thousand Metalworkers in the Steel & engineering, transportation, infrastructure and related sectors. Our goal is to promote the interests of our members in relation to employers and the interest of the country by championing a job led industrial strategy that can grow the economy that can create jobs in the labour market. We are a Marxist-Leninist pro-working class formation whose overall objective is to ensure that the state intervenes in the economy, and plays its developmental role by being a creator and the employer of last resort. We obviously believe that capitalism has no

solutions for problems that confront humanity that's why we remain agitators and promoters of Socialism.

## **SOCIO-ECONOMIC BACKGROUND OF ESKOM TARIFF INCREASE**

The burning question is to address what in our view is a growing national disaster, of an economy which has been affected by the deep global crisis of capitalism, whose negative impact has plummeted our economy.

We have been in the recent past on the verge of an economic recession. Our economy has been the subject of downgrades by ratings agencies and has remained stagnant for some time. There is a need to stimulate economic growth through a job led industrial strategy. It is our take that if the country is to succeed in dealing with the severity of this ailing and stagnant economy which has rendered 30.4 million South Africans without a plate of food; 36% of the population is unemployed, there would need to be breaking of new ground in positioning our SOE's and Eskom as strategic institutions that are at the centre of transforming minerals energy and finance complex.

South Africa is the most unequal country on earth with a Gini-coefficient of 0.63%. The poorest 20% of the South African population consumes less than 3% of total expenditure, while the wealthiest 20% consume 65%; this is according to a 2017 World Bank Report.

We urgently need a revolutionary developmental path away from failed macro-economic policies like Growth Employment and Redistribution (GEAR) and the National Development Plan (NDP). NUMSA has consistently maintained for the past two decades that we need to restructure the South African economy, nationalise our commanding heights and all our minerals to champion a job led industrial strategy. It is important to remind our critics that the current triple crisis of poverty, unemployment and inequality is not as a result of our socialist policies which we have consistently advocated for. Indeed we advocated for the Freedom Charter and the revolutionary agenda which made the ANC for decades to be defined as a liberation movement. It is out of the failures of GEAR, and the NDP which have destroyed the economy

and have left the country with serious levels of de-industrialisation which will take the South African economy decades to recover from.

### **The Regulatory Clearing Account (RCA) APPLICATION**

Eskom lodged its RCA applications in accordance with section 14.2.1 of the MYPD Methodology. Eskom is claiming that it suffered revenue under-recovery and higher primary energy costs to meet demand. The Regulatory Clearing Account (RCA) application by Eskom is premised on its performance and revenue under-recovery during the 2014/15, 2015/16 and 2016/17 control period within the third multi-year price determination (MYPD3), amounting to R66.6bn which translates into (R19.19bn, R23.63bn and R23.87bn) respectively.

Our submission in dealing with Eskom's third multiyear determination (MYPD3) tariff is consistent with the posture which we have articulated; we are making a clarion call that we need a completely new approach both for Eskom and NERSA. Eskom must be properly located to play its strategic role in the economy, and in dealing with the Eskom tariff increase application we must deal with the challenges that confront the economy in a way that stimulates economic growth, and be very focus on the plight of our people in relation to jobs, poverty and unemployment.

The mandate of State Owned Entities and Development Finance Institutions (DFI's) should be aligned to our development imperatives specifically building an economy that create jobs that are sustainable and paying a living wage, not a poverty wage of R20 per hour. It is our submission unapologetically that Eskom's mandate should not be centred on chasing profits in order to satisfy the likes of the IMF and the World Bank, and ratings agencies. ESKOM should revert back to its original mandate, that of delivering an affordable electricity tariff to business, and free electricity for all.

### **THE COST REFLECTIVE TARIFF NEEDS A RETHNK**

The immediate challenge and task facing the country is to stimulate economic growth in the mining and manufacturing sector to drive beneficiation in taking forward a job led industrial strategy.

The electricity price is one of the biggest constraints to growing the economy. In the last five years, it has increased by 400%. The concept of the cost reflective tariff needs a rethink and must be achieved over a longer period of time. The tariff growth needed to grow the economy is not one based on the 66 billion Rand or 30% increase which Eskom is requesting to cover the 2014/15, 2015/16 and 2016/17 financial years. We require a tariff path closer to inflation for an extended period of up to 10 years. This tariff path must stimulate the economy in mining and manufacturing to drive beneficiation and create more jobs. NUMSA is also calling for the nationalization of all the commanding heights of the economy, the mines, the land and the banks must be controlled by the working class majority in order to drive a job led industrial strategy, as the only way to change relations of production to ensure a genuinely free and equal society.

The RCA of 66 billion Rand will lead to plant company closures and Eskom losing customers, because it impacts on the sales volume. The very strategic nature of Eskom is to supply electricity to the economy and to electrify the country. It can only do that if there is a demand. And there can be only be a demand if there is a growing economy. This increase will lead to massive job losses in the economy.

Secondly, Eskom must confront the main cost drivers which are:

- 1) The cost of coal
- 2) The cost overruns in capital expenditure programme;
- 3) The Independent Power Producers (IPP's).

## **THE COST OF COAL**

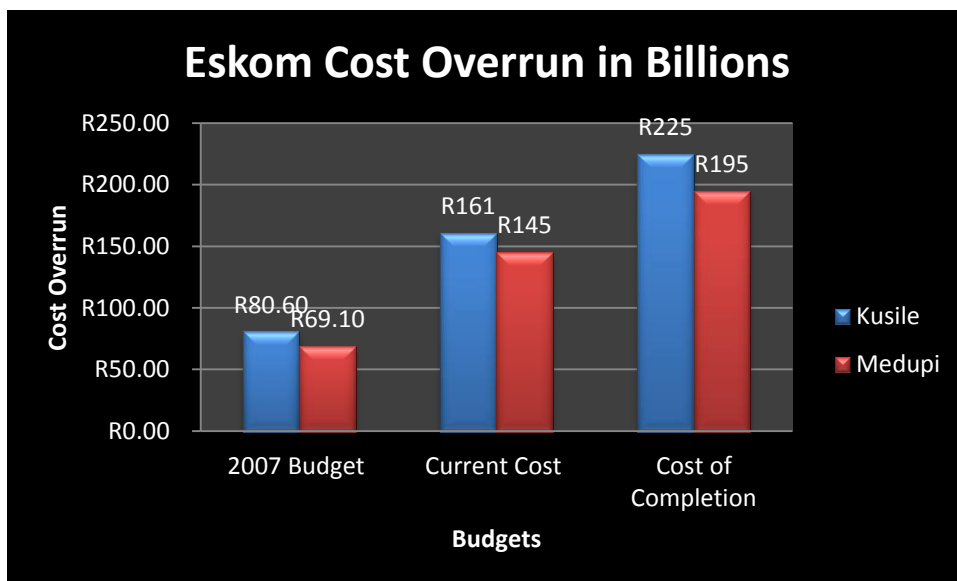
NUMSA has consistently called for nationalization of all commanding heights of the economy and all our minerals. In the case of Eskom we have consistently made a call that government must nationalize strategic coal mines that must supply the national grid with quality cheap quality coal, so that we can escape the continuous exorbitant prices of primary coal, and deliver a competitive electricity tariff. More than 90% of South Africa's electricity is produced via coal by Eskom.

Eskom used to own and control coal mines in the past. It sold these mines and now no longer has the benefit of controlling the cost and the supply of coal. This is why as NUMSA we have consistently demanded that mines must be nationalised to ensure that cost plus mines must be used to determine the price of primary coal and the whole electricity tariff to champion our competitive advantage on electricity tariffs for the economy and to electrify the country.

### THE COST OVERRUNS IN THE CAPITAL EXPENDITURE PROGRAM

There is a need for Eskom to speed up the completion of Kusile and Medupi power stations and with the current capacity we are in a position to produce a cheaper electricity tariff. The projects have experienced major delays which have resulted in the cost of the project skyrocketing. It is therefore important for these projects to be urgently completed.

#### Eskom Project Cost Overruns



## **THE IMPACT OF INDEPENDENT POWER PRODUCERS (IPPs)**

NUMSA regards the signing of the 27 IPPs by the Energy Minister as reckless. We say this based on a couple of reasons:

1. The assumptions of the Integrated Resource Plan (IRP) were based on economic conditions, which are completely different today;
2. We have a surplus in energy capacity
3. The electricity demand is flat and declining
4. IPP's lead to idle capacity, which the consumers will have to pay for.

It is important to put the record straight that NUMSA has never opposed energy mix and renewable energy in particular. We are one of the few trade unions which has resolutions on renewable energy. We must transition from fossil fuels to renewable energy but it must be a just transition. Furthermore the transition must take place within the balance sheet of Eskom and the country. Both balance sheets of Eskom and the national fiscals must be subordinate to the people and build an economy that serves the people.

It is important to also state that all countries that have resolved to introduce measures to introduce an energy mix as a global project, especially for developing countries which are under industrialised, will need a comprehensive, just transition. This is important as there should be strategic decisions as conditions under which this energy mix would be introduced, i.e. the rolling out of the energy mix must be introduced within the time and cost that the state can afford.

To fund these renewables and to deal with Eskom inefficiencies, Eskom has initiated a tariff hike increase of 33% to recoup so called shortfalls in 2015, 2016 and 2017, plus an MYPD4 estimated at between 20% and 30% for the first year, as well as 30% for the balance.

## **WHY DOES NERSA SUPPORT THE IPP PROJECT?**

According to the energy minister NERSA supports the connection of IPP's. The cost overruns incurred in the completion of both Medupi and Kusile, forces us to ask of the NERSA board what the justification was for supporting IPP's in light of Eskom's heavy indebtedness, and the fact that IPP's are expected to

cost the fiscus a further 1.2 trillion rand? How is this different from the nuclear deal which was proposed by former President Jacob Zuma and was heavily criticized for being too costly?

For instance a kilowatt of electricity produced by IPP's costs up to R2.14 compared to the cost of a kilowatt of coal produced electricity at 32cents. In 2016 alone the connection of the IPP's and the sale thereof resulted in a loss of R9 billion. This is wastage and it is done at the expense of the national budget.

Besides the additional cost of IPP's, Eskom has said on various media platforms that the IPP project would mean that it must close four coal powered fire stations in Mpumalanga.

"Eskom spokesperson Khulu Phasiwe on Tuesday confirmed that the power utility will expedite plans to close four power stations in order to accommodate renewable independent power producers (IPPs).

The stations are the 3 000MW Kriel, 1 000 MW Komati, 2 000 MW Hendrina and the 1 600 MW Camden power station, all in Mpumalanga." *Moneyweb, 8 March, 2017*

This will mean that thousands of workers and their families will lose their jobs. Eskom's own internal investigation commissioned by KPMG in a report titled "Economic Impact Assessment Results of five of Eskoms coal powered fire stations" which was completed in July 2017 confirmed the following:

That these power plants in fact contributed towards creating at least 92 thousand jobs in that province; and that they contributed R32.4 billion to the GDP. We maintain that the signing of the IPP's was a truly reckless decision by the minister because it did not take the impact of job losses and the broader impact on the economy.

## **THE ROLE OF CORRUPTION AT ESKOM**

Eskom has not yet come clean on its role in state capture and it has yet to take serious action against maladministration and corruption. Eskom must institute comprehensive forensic and criminal investigation with dismissals, arrests, asset seizures and prosecutions of all those who have been fingered in allegations of corruption at the SOE. Eskom has abused the revenue it received from consumers and taxpayers to benefit sections of the political and economic elite. 'State capture' has occurred through not only the likes of the

Guptas and corrupt cadres, or the likes of the white old guard Ruperts, but even more so by the international financiers and their economic police – the credit rating agencies.

We have noted the changes to the board however to date, Eskom has not recovered a cent of the billions which were looted or lost through corruption and maladministration. We demand that all monies which have been lost through theft or poor management, be recovered first, before any increase is considered.

### **THE AGENDA OF GOVERNMENT IN SELLING SOES**

It is our well-considered view that the manner in which the IPP's were connected to the National Grid, and now the proposed 30% tariff increase which seeks to meet R66 billion will ruin the economy and destroy our manufacturing capacity. Our government has adopted austerity measures, ESKOM is seriously indebted because of the IPP's and the capital built projects, the question must be posed: Where is this money going to come from?

It is a fact that as a result of the huge debt created by Eskom in building the current power stations, whose capacity has now been rendered useless, as well as the lack of a comprehensive plan by government as a result of the adopted austerity measures, has led to the downgrade of Eskom by rating agencies. This will be exacerbated by the cost burden of the IPP project. It is our honest view, in light of this manufactured crisis, that government will eventually claim that it has no choice but to privatize Eskom. They created the crisis for the express purpose of justifying the sale and privatization of Eskom.

It is our view that the privatization of Eskom is nothing more than another form of state capture. We have noticed that the state keeps emphasising the term 'partial privatization' which is nothing more than an attempt to pull the wool over our eyes. We will do everything to stop any form of privatization. We reject it with the contempt it deserves. Once the private sector gets hold of these institutions their agenda is to ensure that they capture influential politicians to enrich themselves at the expense of the working class majority.

### **WHAT IS TO BE DONE?**



1. We reject the request for Eskom to be granted R66 billion rand or a 30% tariff increase. We think an inflation based tariff increase over 10 years is much fairer to the industry and will help to stimulate economic growth and industrialisation. We repeat the demand for free electricity for the working class and the poor, and affordably priced electricity for industry. For the working class, access to electricity and water, is a human right. The working class majority and the poor cannot afford to pay and the state should not commodify a basic human necessity like electricity.
2. Eskom must change its mandate from profit seeking to ensuring that South Africa is adequately electrified both for domestic and industrial life. What we need is free, safe and accessible energy for all, not price increases that put electricity out of economic reach of the working class and the poor.
3. We reject the IPP project because of the negative impact that it is having on Eskom's balance sheet. We demand that this reckless decision be reversed because it is already having adverse consequences on the economy. Furthermore there is the very real threat of at least 40 thousand jobs in Mpumalanga which will be lost as a result of the closure of coal fired power stations to accommodate its implementation.
4. We reject corruption and state capture at Eskom. The 'state capture' report showed that Eskom has been used as a conduit for the enrichment of the Guptas and other crony capitalists connected to President Jacob Zuma and top ANC leaders. Eskom has abused the revenue it receives from consumers and taxpayers to benefit sections of the political and economic elite. We demand that all monies which have been lost through theft or poor management, be recovered first, before any increase is considered.
5. NUMSA is demanding that all the boards of SOEs, in particular Eskom be reconstituted to have representations from business, labour, civil

society and government to guarantee genuine transparency and good governance.

6. It is NUMSA's submission that the National Treasury must fund Eskom for the SOE to address its immediate challenges including giving workers their deserved wage increase.
7. We demand transparency in the disclosure of the primary energy components and the associated costs, which does not allow or enable the stakeholders to conduct in-depth analysis and comment objectively on the true costs that should be recouped as part of the RCA.

End.

Issued by the General Secretary of NUMSA

Irvin Jim

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