



THE NATIONAL UNION OF METALWORKERS SUBMISSION ON ESKOMS REQUEST FOR A TARIFF INCREASE

1 February 2019

National Energy Regulator (NERSA) public hearings on Eskom's fourth multi-year price determination (MYPD4) of electricity tariffs, for the three years from April 2019 to March 2022.

NUMSA Submission: Putting the record straight on the shenanigans of the Eskom Board, Eskom Senior Management and the South African Government who are destroying Eskom, and could potentially collapse the South African Economy.

INTRODUCTION

The National Union of Metalworkers of South Africa is making an application to reject Eskom's request for a tariff hike at the National Energy Regulator (NERSA) public hearings on Eskom's fourth multi-year price determination (MYPD4) of electricity tariffs, for the three years from April 2019 to March 2022. Eskom cannot justify why it is making this application when the board, the state as shareholder, and the senior executive management team have taken decisions that have brought Eskom to the brink of collapse. We believe

the application for a 45 per cent tariff increase over three years will worsen the suffering of the poor and the working class by making electricity costlier and inaccessible. Furthermore, it will plunge business into crisis because it will increase their costs. This will undermine our efforts to grow the economy and deepen the economic crisis. When the cost of doing business becomes too expensive, businesses cut back. Labour is usually the first casualty and retrenchments and job cuts are the order of the day.

WHAT IS THE STATE OF THE LEADERSHIP OF ESKOM TODAY?

The National Union of Metalworkers of South Africa has been fighting the ANC-led governments' agenda to destroy and to privatize Eskom and all other State Owned Enterprises. Eskom owes R420 billion in cash and it is our view that the people who have been tasked with safeguarding its interests are failing dismally. Eskom's problems are self-made, and it is our firm belief that the SOE can be saved, and can be restored to its former glory. But this can only happen if the board, the state, the senior executive management and NERSA, act in the interests of the working class majority.

Eskom has been brought to the brink of collapse because of the following reasons:

1. The Independent Power Producers (IPP's)
2. Escalating coal costs
3. Cost overruns on the build project
4. Systematic blackouts, also euphemistically called "Loadshedding"

THE IPP's

NUMSA's experience of the new board and management has been one that leaves the union consistently shocked and dismayed in their leadership style. We believe that their attitude is anti-Eskom. Eskom's own studies confirmed that governments Renewable energy program the IPP's would have disastrous consequences because it would lead to the closure of several coal fired power stations. The CSIR confirmed that such a move would result in the loss of at least 100 hundred thousand jobs in the coal sector. This will deepen the crisis of unemployment in a country where 37 per cent of the population is unemployed, and Stats SA tells us that more than half the population (30 million people), live in abject poverty. It is reckless in the extreme that the state can jeopardize the future of an entire province, and the economic well-being of a nation by signing on the IPP deal. The IPP agreements were signed without a Social Plan in place for the province of Mpumalanga, whose economy depends almost solely on the existence of the coal-fired power stations.

Eskom adopted a questionable business strategy to advance IPP's. The state utility Eskom pays R2.20 cents per kilowatt per hour to procure electricity, which it can produce at less than 50cents. It then sells it to the market at 86 cents because of the tariff regulations. This is the real reason Eskom is broke! It is truly shocking that such brazenly reckless decision making has been allowed.

And this is why we are making the demand for the Power Purchase Agreements (PPAs) signed with the Independent Power Producers (IPPs) to be set aside on the grounds that the National Energy Regulator of South Africa (NERSA) authorised the agreement without proper public consultation.

The Lack of public participation sank the proposed nuclear deal in 2017 when challenged in court by Earthlife and the South African Faith Communities Environment Institute. The PPA's with IPP's should be set aside on the same grounds.

TABLE 12: ASSUMED COSTS FOR IPP ENERGY

IPPs (local)	Cost (R million)						
	Actuals 2017/18	Projection 2018/19	Application 2019/20	Application 2020/21	Application 2021/22	Forecast 2022/23	Forecast 2023/24
Section 34 programmes (-RE)	2 291	2 648	2 422	2 463	2 513	2 566	2 629
DoE Peaking	2 291	2 648	2 422	2 463	2 513	2 566	2 629
Renewable IPP	19 008	23 709	26 928	31 607	38 220	41 616	43 945
Renewable IPPs Round 1	9 608	10 901	11 446	12 060	12 696	13 441	14 283
Renewable IPPs Round 2	5 591	6 189	6 425	6 709	6 992	7 299	7 614
Renewable IPPs Round 3	3 810	6 016	7 382	7 748	8 179	8 633	9 092
Renewable IPPs Round 3.5		604	1 487	1 714	3 455	3 652	3 836
Renewable IPPs Round 4			158	1 955	3 473	4 465	4 740
Renewable IPPs Round 4.5			30	1 422	3 425	4 126	4 380
Total IPP	21 300	26 357	29 350	34 070	40 732	44 182	46 574
Network costs (UoS)		192	240	254	270	286	303
Total IPP	21 300	26 549	29 590	34 324	41 002	44 468	46 877

Source: Eskom MYPD4 application, 2019

Eskom also shows that its generation market share will shrink from 91% in 2019/20 to 88% in 2023/24 with the IPP market share growing from 5% to 8% over the same period. Eskom has to cede its own market share in order to accommodate the IPP's.

Expansion of the IPP power purchases represents a growing percentage of Eskom's primary energy cost from 26 per cent in 2019/20 to 31 per cent in 2021/22. The annual expenditure on IPPs will grow from R21.3 billion in 2017/18 to R46.8 billion in 2023/24 due to escalation clauses in the existing contracts and the addition of new ones.

According to the Electricity Regulation Act 4 of 2006, the national regulatory framework for the electricity supply industry gives NERSA the power to be the custodian and enforcer of the national electricity regulatory framework. Under this regulation, NERSA is empowered to provide licences and registration for generation, transmission, distribution, trading, import and export of electricity. Amongst other legal regulatory principles, NERSA is mandated to be transparent and to take decisions that are for the benefit of the public. We believe that these important roles as outlined in the Electricity Regulation Act gives NERSA the power to immediately discontinue and to set aside the Power Purchase Agreements (PPAs) signed with Independent Power Producers (IPPs).

ESKOM IS BEING LOOTED THROUGH THE COST PLUS MINES

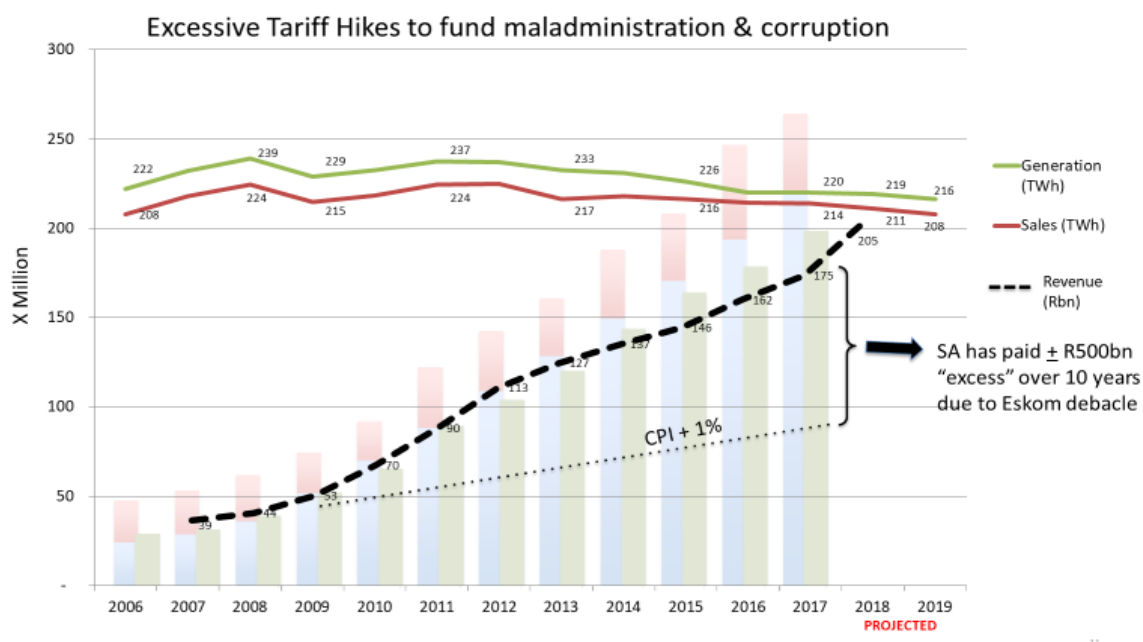
Eskom is being looted through coal procurement from white monopoly capital companies who run and manage all of Eskom's Cost Plus Mines. These mines have been paid for by the national fiscus. This means that they are owned and must be controlled by the citizens. But the painful truth is that they make white owned companies like South32, Exxaro, Glencore, filthy rich. Between 2008 and 2015, the cost of one ton of coal purchased by Eskom increased by 17% year on year. Cumulatively, they imposed increases, which were over 400 per cent, against inflation of 74 per cent. These companies then filled their pockets and this corruption was knowingly enabled by Eskom executives. This is the real state capture that is persistently swept under the carpet. No steps have been taking to intervene and stop this form of corruption.

ESKOM BLACKOUTS (LOADSHEDDING)

Rolling blackouts, also known as 'loadshedding' are detrimental to the economy. These blackouts began in 2008 and as recently as late last year Eskom implemented rolling blackouts all over the country. They are detrimental to the economy. We have lost billions in revenue which we can never recover. In 2008 Eskom was mired in a scandal when it emerged that some of its executives personally benefitted from these black outs through the increased cost of coal. Those who were implicated in this form of corruption have never been held to account and not one cent has been recovered. If NERSA grants them an increase, we will be helping them to cover up for the corruption and looting.

We are convinced that load shedding was unnecessary and a ruse to prepare the country for the privatization of Eskom. At 23 per cent reserve margin, which is higher than the 19 per cent required by the National Energy Regulator, there should have been no need for load shedding. NUMSA also rejects the assertion by the public enterprises minister that current load shedding incidents are caused by elements of a third force working with former executives.

COST OVERRUNS OF THE ESKOM BUILT PROJECT



Source: OUTA, 2018

Medupi, Kusile and Ingula are crime scenes. We believe that the cost overruns were hiding massive corruption. Serious looting took place on these sites which has almost bankrupted Eskom. Contracts were extended and escalated to the benefit of suppliers linked to Eskom executives. We have seen this on various media platforms it is public knowledge, yet we do not see anyone being held accountable. Eskom admits that some of the construction work was shoddy, but no clear steps have been identified to recover those monies, or to take action against companies for the wasteful expenditure.

ESKOM CAN PULL ITSELF OUT A FINANCIAL HOLE IN THE FOLLOWING WAYS:

1. The boards of SOE's must be reconstituted in order to represent the interests of the majority. Eskom is a SOE and the board should have representatives from labour, communities, business and government. At

the moment the ANC deploys cadres who act in the interests of the ruling party elite which is why they keep taking decisions which are to their benefit. This is the only way to ensure genuine transparency and good governance at the SOE, and to put a stop to the looting and mismanagement.

2. NERSA must set aside the Power Purchase Agreements for the IPP's. The IPP project must be cancelled in favour of a Just Transition to a socially owned Renewable energy. The ILO guidelines which form part and parcel of the Paris Accord which informs our Renewable energy policy, must be adhered to. It stipulates that the transition from fossil fuels to renewable energy must be a process driven by the working class and the poor and that it must be to their benefit. It must not leave the next generation worse off, so in other words, workers at coal fired power plants who may lose their jobs as a result of the transition from fossil fuels to renewable energy must be re-trained and absorbed into the renewable energy sector. We cannot solve the problem of climate change by exacerbating joblessness. And this is why we demand that Eskom extend the lifespan of the power stations in Mpumalanga in order to facilitate the just transition, and prevent unnecessary job losses.

We know what must be done is to disconnect expensive IPPs from our national grid. We have enough capacity at the back of our coal power stations to deliver an extremely cheap and competitive electricity tariff to the economy and to electrify our country the current capacity can carry us until 2025.

3. All plans to privatize or break Eskom up into parts must be scrapped. We must keep all our SOEs, especially Eskom, in the hands of the state.

Electricity is already very costly for the working class majority, and privatization will only worsen this, entrenching inequality. We have a minimum of 30 service delivery protests a day, and the majority of these are because of a lack of electricity services. Eskom has a cruel habit of cutting off electricity during the cold winter months. Privatization will worsen this situation as corporates are driven only by greed and profit, which will make electricity even more inaccessible. Past experience has shown us that the jobs which are shed are never replaced, worsening the living standards of the working class, and increasing inequality.

4. We are against retrenchments of workers as the solution to Eskoms financial woes. This will worsen unemployment and poverty. All monies which have been lost through corruption, and wasteful expenditure must be recovered first. And those who are fingered in corruption must pay back the money. We also demand that companies who have benefitted from Eskom through corrupt contracts must pay every cent back. They must also have their contracts terminated and black listed from doing business with government.

If Eskom were to implement all of the above proposals, we believe that a tariff increase can be averted. The SOE can be turned around and become operationally sound and that jobs can be saved.

End.

Issued by NUMSA

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