

# ESKOM RCA Applications 2015/16 2016/17 2017/18

NERSA 16 April 2018

**Nelson Mandela Bay Business Chamber**

**Inputs and Recommendations**



# Overview

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# Nelson Mandela Bay Business Chamber

- ❑ Largest business association in the EC with around 700 members employing over 100 000 people
- ❑ Estimated value of investments made by member companies in the past year is R18.2 billion.
- ❑ The Chamber is leading business transformation by example through its staff, Board and membership equity representation
- ❑ The voice of business in in Nelson Mandela Bay, committed to retaining and growing local investment and growth in the region.
- ❑ Lobbying, representation and strategic interventions to facilitate an enabling environment for business
- ❑ High input costs are affecting the viability of businesses and as such the Chamber has been very active in protecting business interests in relation to electricity tariffs

# The application

Eskom requests an additional **R 66.7 Billion** to be recovered through the tariffs

RCA “Corrections” for years 2014/15; 2015/16; 2016/17 of MYPD3 period

**R 22Billion** for cost overruns, mainly on primary energy

**R 44Billion** to compensate for a lack of sales

Will create estimated **additional increases** of at least **12.5 %** for a period of at least four years (if year 5 of the MYPD3 is included)

Current Eskom tariffs are 2.5 times what they were in 2008 in real terms

# What it means for the Nelson Mandela Bay

The application means an increase of **R1,06 Billion** to the NMBM consumers

**R 330 Million** increase to households

**R 190 Million** increase to small business

**R 540 Million** increase to industry

**The Nelson Mandela Bay simply cannot absorb such increases**



# The legal Framework

## Electricity Regulation Act Section 15.1

Tariffs must enable an **efficient licensee** to recover the **full cost of its licensed activities**, including a reasonable margin or return;

*The end user must only pay for **efficiently** incurred costs*

## The RCA mechanism is based on the MYPD methodology

The methodology only allows cost to be recovered when efficiently incurred  
but

Eskom is an organisation marred by corruption and maladministration and any impact this might have had on the RCA application needs to be investigated by Nersa before any decision is made

# Governance Failures

- The RCA applications cover a period marred with corruption, fraud and looting at Eskom
- Corruption, fraud and maladministration are neither lawful costs, nor efficient costs
- Current investigations:
  - Denton's report, July 2015
  - Coal Quality Management review; PwC 26 November 2016
  - State of Capture: public Protector of South Africa 4 October 2016
  - Verification and compliance re. Tegeta appointment; National Treasury April 2016 & April 2017
- Total estimated cost (Eskom) = R14,5 billion

# Nersa's Duties

- Must act in the public interest.
- Must enforce performance and compliance and take appropriate steps in the case of non-performance;
- May undertake investigations and enquiries into the activities of licensees;
- May initiate enquiries and investigations in relation to licenses

# Nersa's Viking Pony Obligations

- Awareness of information which, if verified through proper investigation, could expose a fraudulent scheme triggers duty;
- Any information that gave rise to a reasonable suspicion of fraud or corruption amounted to detection or awareness;
- If Eskom credibly accused of corruption or fraud, Nersa is, upon becoming aware of the such unlawfulness, obliged to investigate the matter;
- The duty to “act against” includes conducting an appropriate investigation.

# Ground Hog Day



DAILY MAVERICK | SCORPIO OPINIONISTAS ZAPIRO SECTIONS | ENGAGE

Op-Ed  
Inside the 'coal supply emergency' at Eskom

# The MYPD Methodology vs The interest of the wider South African economy

Eskom requests Nersa to follow the MYPD methodology

but

Nersa's must apply **reasonable judgement** after due consideration of what may be in the interest of the wider South African economy and the general public

(from the Supreme Court of Appeal judgement on Eskom's 2013/14 RCA)

**Are the RCA's serving the public interest?**

**Does Eskom really need this money to survive?**

# Nersa's Eskom 2018/19 revenue decision: Light at the end of the tunnel

Eskom request: 19.9% increase

Nersa decision: 5.23% inflationary increase

Nersa's decision to curtail Eskom's request was based on (RfD):

- Out of control spending at Eskom
- Corruption and mismanagement at Eskom
- Eskom's financial viability
- Impact of Eskom's price increases on the economy and Eskom's sales

Nersa made a decision in December 2017 to curtail Eskom's increases to inflation level because higher increases are **not serving the public interest** and are **not required to ensure Eskom's sustainability**

"The 5.23% tariff increase is in line with government policy to reduce income inequality, poverty and unemployment" (RfD page 116)

# Eskom's RCA application: The big disappointment

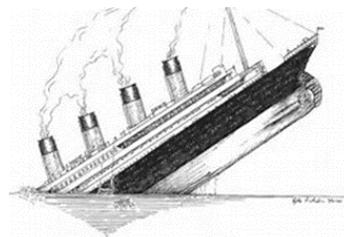
**3 months after Nersa's well motivated 2018/19 revenue decision, Eskom launches another attack on its own future and SA's economy in the form of the RCA applications**

- The applications will lead to tariff increases well above inflation
- In line with the reasoning used by Nersa to justify its 2018/19 revenue decision, this will lead to:
  - Eskom' Death Spiral of volume reductions and price increases
  - Increased inflation
  - Reduced GDP
  - Reduced Trade competitiveness
  - Unemployment and increased inequality

# The RCA's will lead to the Cause of all Evil: Eskom's death spiral

- **Tariffs increased** by 250% in absolute terms since 2008
- **Reduced sales** vs MYPD3 (-10% in 2016/17) lead to the RCA applications for **R44Billion**
- Further tariff increases above inflation cause **reduced sales**
- The RCA applications will cause further price shocks reducing Eskom sales
- Increases as requested will have a negative impact on Eskom sales of at least R 5 billion per annum (Nersa Rfd Table93)
- The RCA applications in itself will result in further RCA applications

**The RCA's are part of Eskom's death spiral and must be rejected**



# Utility Death Spiral



With thanks to The Herald newspaper

# The RCA applications are not in the public interest

If approved, Eskom's RCA Applications:

- are contrary to the Government's policy to reduce income inequality, poverty and unemployment (Nersa RfD page 116)
- will negatively affect low income households most (RfD page 116)
- will particularly affect SMME's (RfD page 112)
- will have a negative effect on GDP and SA's competitiveness (RfD page 108/109)
- Will create unemployment (RfD page 111)
- Will increase inflation (RfD page 112)
- Will negatively affect electricity consumption (RfD page 115)

# The RCA's will compromise Eskom's financial survival

- Eskom admits there is no relation between the RCA and future financial requirements; **RCA is treated as an entitlement:**

“The RCA applications are for revenue related to cost recovery and revenue adjustments based on **actual past** variances or backward looking reconciliation. **It is NOT a revenue application based on future estimates.**” (Eskom website)

- Nersa recommends, according to its 2018/19 RfD page 117:
  - For Eskom to reduce its Capex and improve its working capital management
  - For Eskom to reduce its operational costs to levels set in RfD
  - For Eskom to start creating value, profitability and growth
- Eskom needs to break the Death Spiral: reduce cost and increase sales rather than continue with above inflation price increases
- Cost and spending reduction combined with restraint on price increases are the way forward

# NMBBC's recommendations

**Nersa to reject the RCA applications in its entirety**

***-in the interest of the wider South African economy and the public***

***-in the interest of Eskom***

Eskom requires a strategic review **focussed on growth** and profitability, including a restructuring of Eskom in line with Nersa's 2018/19 revenue decision

close power stations which are no longer required

halt to capital spend

review coal contracts

right-sizing of personnel

reduce operational spend

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# THANK YOU



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