

ESKOM's applications for MYPD4 and MYPD3 RCA 2017/18

NERSA 15 January 2019

Nelson Mandela Bay Business Chamber

Comments and Recommendations



Overview

- The Nelson Mandela Bay Business Chamber
- What the applications mean for South Africa and the Nelson Mandela Bay
- Why we reject the applications
- Our Recommendations: Reduce Eskom Cost
- Our Recommendations: Stimulate Eskom Sales



Nelson Mandela Bay Business Chamber (NMBBC)

- ❑ Largest business association in the Eastern Cape with a membership of around 700 businesses, employing over 100 000 people
- ❑ The voice of business in Nelson Mandela Bay
- ❑ Lobbying, representation and strategic interventions are key focus areas
- ❑ The NMBBC is a leading organisation in protecting business interests in relation to electricity tariffs
- ❑ Since 2011, The NMBBC has effectively influenced electricity tariffs nationally and in the NMBM through focussed action and engagement

The applications

- Eskom's MYPD4: Eskom tariffs from 2019 to 2021: 3x 15%
- Eskom's MYPD3 year 5 RCA: R 21.6 Billion

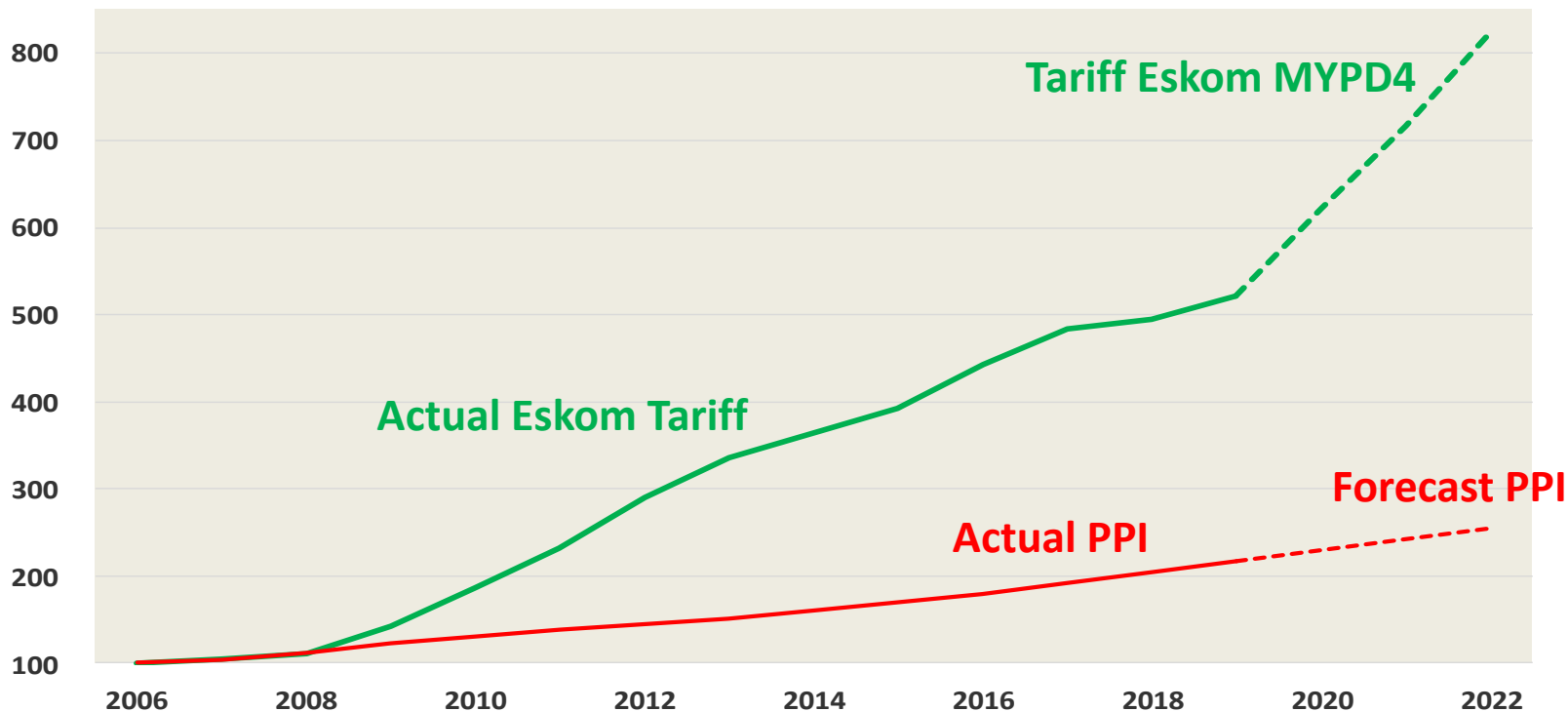
Already approved:

Eskom's MYPD3 year 2-3-4 RCA's

R32.7 Billion leading to 4.41% effective increase for April 2019

The tariff application and the historic context

Eskom Tariffs vs PPI 2006-2022



**The application amounts to a further 34.6% increase above inflation for the MYPD4 period
4.41% increase effective April 2019 has already been awarded through the RCA process**

What the applications mean in Rand

South Africa

Total revenue over the three years **R 788 Billion**

Total increase over the three years **R 215 Billion**

Above inflation increase over the three years **R 145 Billion**

Nelson Mandela Bay

Total revenue over the three years **R 17 Billion from the NMB consumer**

Total increase over the three years **R5 Billion**

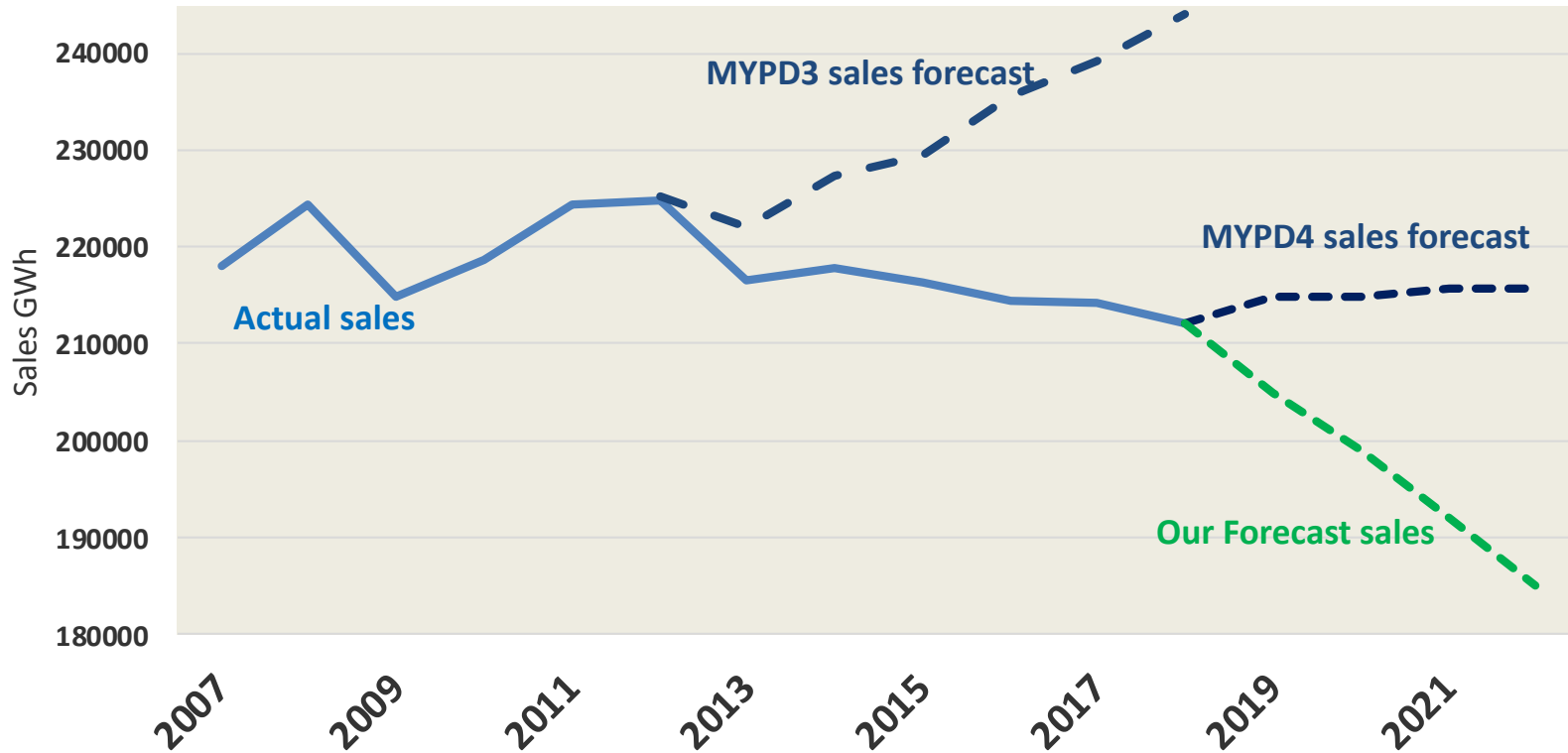
Above inflation increase over the three years **R 3.6 Billion**

Households R 1.2 Billion above inflation increase

Small business R 0.6 Billion above inflation increase

Industry R 1.8 Billion above inflation increase to industry

Eskom's MYPD4 sales forecast is unrealistic



Eskom's forecast sales repeat the mistakes from the MYPD3

In line with Deloitte's report, the NMBBC forecasts a reduction in sales of at least 3%/ annum

The effects of the application

If approved

Eskom and South Africa's economy will collapse

We will further reduce our electricity usage

Eskom Tariffs will need to increase further

Economic decline, SA will shrink

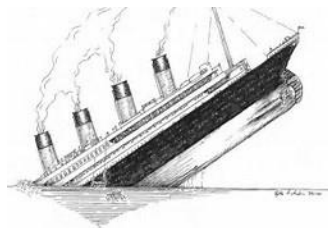
Investment will reduce further

Poverty, unemployment and inequality will increase

Utility Death Spiral in full motion

The NMBBC strongly rejects the application

Eskom's increases must be contained within inflation to stimulate usage



On what basis do we reject the application?

Proven failure

Eskom expects the electricity user to pay for its inefficiencies

The MYPD4 application provides

No leadership

No vision

No ideas

No Solutions

No Hope

Insanity is doing the same thing over and over and expecting a different result.

Albert Einstein

Light at the end of the tunnel: Nersa's most recent tariff decision

- **2018/19 Eskom tariff application:** Eskom request: 19.9% increase
Nersa decision: 5.23% increase
- **Eskom RCA requests:** Eskom requests: R Billion 66.7 Billion
Nersa Decision: R Billion 32.7 Billion

Nersa's decision to curtail Eskom's requests was based on:

- Corruption and mismanagement at Eskom
- Eskom's inability to supply sufficient electricity
- Delayed and overspent projects
- Debunking the myth of electricity price elasticity
- Holding Eskom and its shareholder accountable for irrational decisions, inefficient operations and non-prudent spending
- Eskom's financial viability
- Impact of Eskom's price increases on the economy and Eskom's sales

Nersa's most recent tariff decisions

Nersa also curtailed Eskom's increases to inflation level because higher increases are **not serving the public interest** and are **not required to ensure Eskom's sustainability**.

- **Nersa's recent decision are the base for an efficient Eskom. Eskom has been ignoring Nersa's decisions (2018/19 financial forecast)**
- **The NMBBC commends the energy regulator for its recent decisions and recommends Nersa to continue along this path.**
- **The NMBBC's recommendations take into account that the Energy Regulator's future decisions will be in line with their recent decisions**

NMBBC recommendations

1. Reduce Eskom Costs and constrain Eskom Tariffs within inflation
2. Increase sales



NMBBC recommendations

Reduce Eskom Costs and constrain Eskom Tariffs to inflation

- Fix Eskom's inefficiencies (Nersa to enforce in line with recent decision)
- Rationalise coal spend (Nersa to enforce in line with recent decisions)
- Instil a culture of payment in the customer base
- Stop Eskom's reckless capital spending
- Customers must not pay for recklessly incurred capital spending
- Customers must not pay for inefficient shareholder interventions and political meddling
- Customers must not pay for expensive IPP contracts

Act on the culture of non-payment

The culture of non payment promotes lawlessness and dysfunctionality

Municipalities are the main culprits

No discernible corrective measures despite long standing dysfunction

NMBBC recommendations:

- Eskom must be empowered to stop the culture of non-payment
- Nersa must fulfil its duties and disempower non-complying licensees (municipalities)
- Electricity theft must be dealt with

SA can't afford Eskom's reckless capital spending

Current installed capacity September 2018 at Eskom's disposal:

52,000 MW

Current Peak usage

35,000 MW

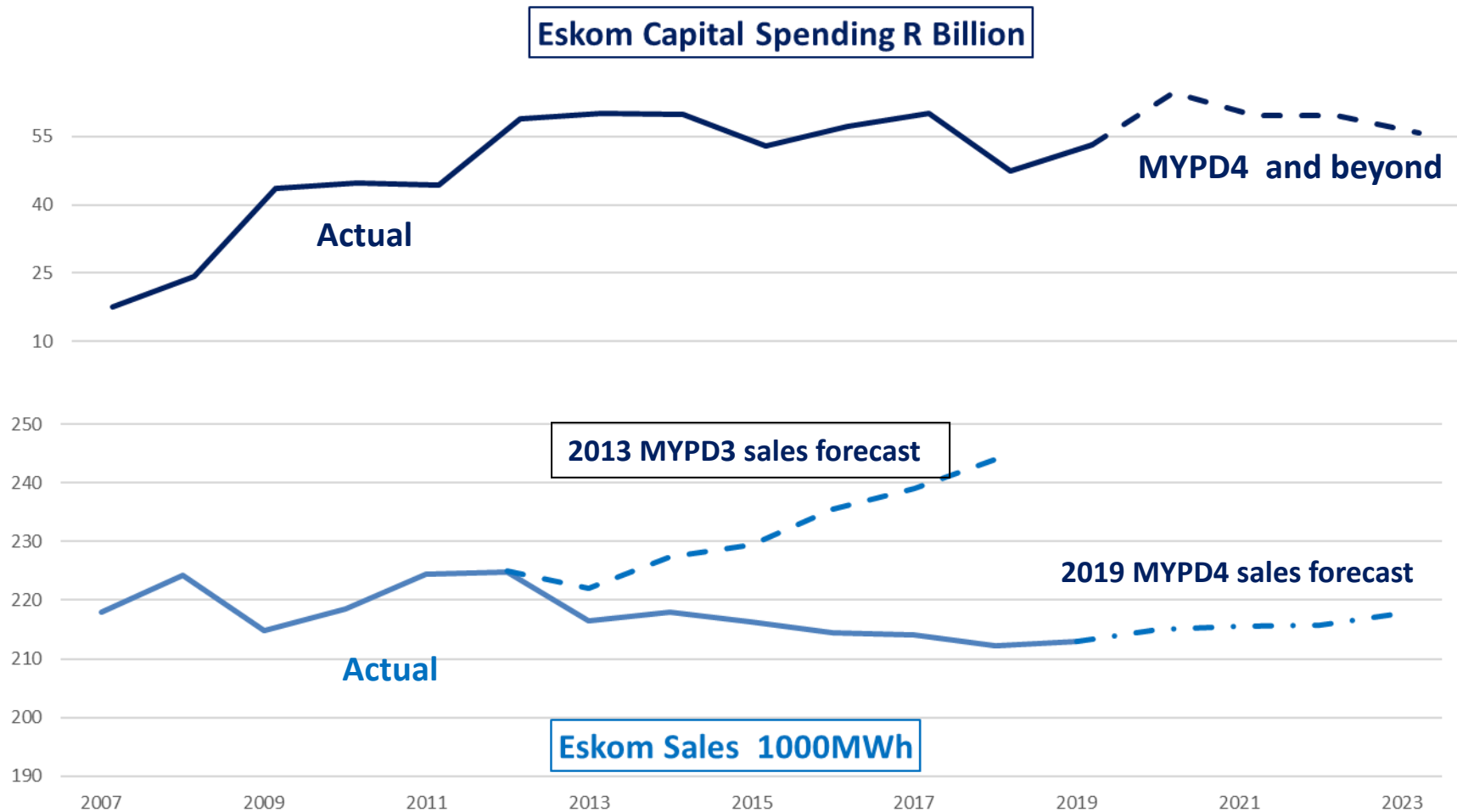
Planned additional capacity: 5,700MW (Kusile and Medupi)

3,000MW (IPP's)

- Capital spending is biggest financial burden on Eskom (59% of revenue)
- Spending continued unabated while sales dwindled from 2013
- Spending still continues under MYPD 4 and beyond despite Eskom's decline
- Overspending and delays on projects
- At least R200 Billion already wasted (overspends and unnecessary capacity)

Current capital spending is reckless given reduced sales

Sales drop, but CAPITAL INVESTMENT continues unabated...

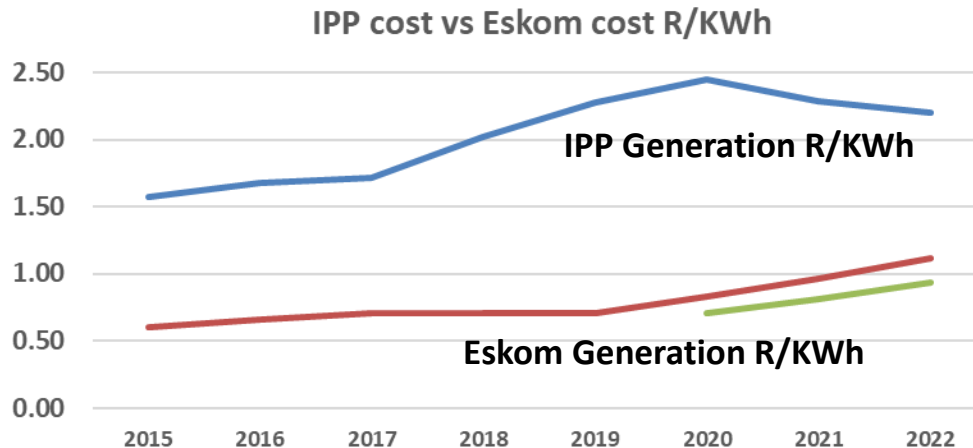


Reduce financial burden and STOP Capital spend

NMBBC recommendation:

- STOP all capital projects until new capacity is required
- Nersa to remove all *inefficiently* incurred capital spending from asset base (in line with RCA decisions)
- Nersa to remove all *unnecessarily* incurred capital spending from asset base

IPPs are adding 13% to Eskom's electricity price



IPP generation costs Eskom R Billion **88** over **MYPD4** period

IPP's represent **17%** of generation cost for **6%** of generated power

- The consumer is expected to pay for irrational decisions by Nersa and DOE re IPP's
- Gas/Diesel Peaker stations in PE and Durban will never be used but cost the user R2.5 Billion per year

NMBBC recommendation:

- Remove excessive IPP cost from tariffs
- Consider new IPP procurement when capacity is required and tariffs are competitive

NMBBC recommendations- Increase Eskom sales

- **Align Municipal tariffs with Eskom Direct Tariffs to stimulate electricity usage**
- **Promote re-opening of large industrial users to stimulate usage and allow industry to grow**
- **Review tariff structures to stimulate sales growth**

Align Municipal Tariffs to Eskom direct tariffs

- 41% of Eskom's electricity is distributed through municipalities
- Estimated 26.6% of Eskom power goes to municipal business; 19% to industry

Industrial tariff comparison 2018 7 MVA; 6380 KW; 40546MWh/annum 3 shift scenario	R/Kwh
Madibeng	1.46
Cape Town medium voltage <66KV	1.33
Ekurhuleni 11KV	1.31
Tswhane 11KV	1.22
Durban 11KV	1.16
Cape Town Investment incentive medium voltage	1.13
NMBM TOU tariff	1.13
Eskom Direct Megaflex 11KV NMB	1.02
Eskom Supply to the NMBM 132 KV	0.90

MUNICIPAL MARK-UPS ARE COUNTERPRODUCTIVE

Stop excessive municipal mark-ups on electricity

- Tariffs unlawfully used as revenue raising mechanism by municipalities
- Tariffs allow inefficiencies in the municipal distribution function
- Municipal tariffs distort Eskom's pricing signals
- Municipal tariffs are unlawful and violate the ERA and EPP
- Municipalities choke usage through high tariffs and significantly contribute to Eskom sales decline (Deloitte report)

NMBBC recommendations:

- Nersa must instil the same diligence for municipal tariff determinations as it has done for Eskom tariffs
- Municipal tariffs to reduce to Eskom Direct Tariffs to stimulate economy
- No increases on municipal tariffs where they exceed Eskom direct

Stimulate large users with attractive tariffs

- Eskom's largest industrial and mining users consume over 35% of Eskom's power
- Consumption has been shrinking significantly : industry -20%
- Smelters and other high energy users closed plant in SA during capacity shortage area and increasing tariffs

NMBBC recommendation:

Promote re-opening of large users to stimulate usage and allow industry to grow

Review tariff structures to enable growth

High winter peak tariffs and peak tariff structure are detrimental for large users

Tariff structures (standard tariff) promote self generation

NMBBC recommendation:

- Remove destructive tariff structures such as excessive winter peak
- Restructure tariff to compete with changing market conditions

Problem is bigger than Eskom...

South Africa needs a comprehensive solution including all the major role players

Eskom

NERSA

DOE

COGTA

Treasury

Municipalities (Salga)

EIUG

Municipal Users

Other users

“May your choices reflect your hopes, not your fears”

— Nelson Mandela —

NMBBC recommendations

Reduce Costs

- Fix Eskom's inefficiencies and coal spend
- Stop Eskom's reckless capital spending
- Customers must not pay for Eskom's recklessly incurred capital
- Customers must not pay for expensive IPP contracts
- Instil a culture of payment in the customer base

Increase Sales

- Municipal tariffs to reduce to Eskom Direct Tariffs
- Promote re-opening of large industrial users to stimulate usage and allow industry to grow
- Review tariff structures to stimulate sales growth

THANK YOU



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