

**OBJECTIONS TO THE  
PROPOSED ESKOM PRICE INCREASES FOR THE  
2018/19 FINANCIAL YEAR**

**PRESENTATION TO NERSA  
1 NOVEMBER 2017**

 Nelson Mandela Bay Municipality

 [www.nelsonmandelabay.gov.za](http://www.nelsonmandelabay.gov.za)

 @NMBmunicipality

# GENERAL INTRODUCTORY COMMENTS

## INTRODUCTION

The Nelson Mandela Bay Municipality is required to :

- Provide a safe, reliable and cost effective electricity supply to all residents of NMBM;
- Promote economic development and job creation through ensuring adequate and sufficient infrastructure provision.
- Plan for a sustainable future;
- Promote efficient and competitive electricity tariffs; and
- Be able to cross-subsidise indigent residents within the tariff structures.

The proposed Eskom tariff increase jeopardises the municipality's ability to achieve these mandates.

## ECONOMIC IMPACT

- The largest economic sectors in the NMBM are manufacturing, finance, community services and transport. The most well known industrial activity in NMBM is the motor vehicle and associated components industry.
- Electricity is an essential input to production for these industrial companies.
- According to research, manufacturing provides 20% of total employment within the region. In the past 3 years, 300 jobs were lost in the foundry industry. Eskom's proposed 29.5% electricity price hike, if approved, will cripple the already struggling regional economy.
- The regional motor components manufacturing, which is an energy-intensive and energy-dependent industry has been struggling for the past 5 years, because it does not only supply the local motor vehicle manufacturers, but competes globally through the export business and has fierce competition from their European counterparts.
- The companies within the motor vehicle and components industry contribute immensely to the local economic development through procurement of goods and services from Small and Medium Micro Enterprises (SMME).

## **ECONOMIC IMPACT (continued)**

- The high increase in cost of electricity places our industries at serious risk of becoming non-competitive in both local and international markets;
- This will result in them cutting back on costs, which would mean job losses, or, even worse, companies closing their doors.

## PRICE INCREASES vs ELECTRICITY LOSSES

- It has been argued that the municipal price increases from Eskom are necessary to pay for expanding and maintaining the generation capacity, however, the price increase will be passed onto the domestic households and businesses by the municipalities.
- During the 3 year period from 2009/10 (Eskom Increases = 31.3%), 2010/11 (Eskom Increases = 18.7%), 2011/12 (Eskom Increases = 25.78%). During the same 3 year period electricity losses increased from around 7.5% to 10.7%, which is above the national standard of 10%.
- Once our customers experience the electricity tariffs as unaffordable, the natural path is away from traditional supply, either by circumventing (tampering) our meters, or by utilising alternative sources of renewable energy. Either consequence will hurt our revenue.
- In addition, the Metro will bear the burden of additional financial and operational challenges in securing municipal distribution networks against illegal connections and tampered electricity meters.

## **MUNICIPAL FINANCIAL POSITION**

- For the NMBM as a licensed municipality that provides electricity to households and businesses, sale of electricity is a major source of revenue that generates surpluses that are to be used to finance other municipal operating requirements.
- The municipality through its continued efforts has been able to improve its collection rate to around 94.3% in the 2016/17 financial year.
- A high increase in electricity prices will render municipal services unaffordable for many; this will result in the municipality not being able to adequately collect revenue owed from monthly electricity billing.
- This drop in revenue collection rate will then further result in municipal budgets not being cash backed, and place the municipal cash flows at an increasingly high risk.
- Poor collection rates will also directly impact on the funding of maintenance plans for infrastructure and negatively impact the Capital Replacement Reserves of the municipality.

# **HISTORIC SALES AND PURCHASES STATISTICAL INFORMATION – *Figures tell a story***



# NMBM ELECTRICITY SALES, PURCHASES AND PERCENTAGE LOSSES STATISTICAL INFORMATION

## Eskom Purchases

## NMBM SALES

<u>Financial Year</u>	<u>kWh</u>	<u>Rands</u>	<u>Average purchase Price</u>	<u>kWh</u>	<u>Rands</u>	<u>Average selling Price</u>	<u>% Electricity Losses</u>
2009/10	3,803,107,000	1,180,575,841.00	0.34	3,516,742,000	1,887,588,750.00	0.54	7.5%
2010/11	3,818,564,337	1,507,806,537.00	0.43	3,532,507,000	2,294,320,025.00	0.65	7.5%
2011/12	3,845,091,627	1,912,391,697.00	0.55	3,498,516,000	2,876,250,701.00	0.82	9.0%
2012/13	3,608,943,000	2,105,511,147.00	0.58	3,223,926,523	3,061,294,846.00	0.95	10.7%
2013/14	3,510,929,549	2,167,103,913.80	0.62	3,113,762,119	2,953,624,089.80	0.95	11.3%
2014/15	3,538,162,655	2,361,461,213.49	0.67	3,103,224,840	3,154,996,743.00	1.02	12.3%
2015/16	3,591,078,040	2,721,484,233.95	0.76	3,135,773,999	3,550,810,148.59	1.13	12.7%
2016/17	3,525,232,403	2,892,128,296.34	0.82	3,054,469,725	3,693,703,315.03	1.21	13.4%

## **ANALYSIS OF THE STATISTICAL INFORMATION**

- From the year 2010 to the year 2017 the average electricity purchase price from Eskom for the NMBM increased by 144%.
- This has resulted in an increase on the average selling price by a percentage margin of 126% over the same period.
- The electricity losses over the same period have nearly doubled from 7.5% to 13.4%.
- The electricity sales in kilowatt hours over the same period have reduced by 13%.

# **THE IMPACT OF INCREASES FROM 2017/18 TO 2018/19 per category of customer**

# Normal Domestic Tariffs

## COMPARISON from 2017/18 to 2018/19 (29.5% municipal increase is assumed)

<u>NMBM</u>	<u>2017/18 Approved tariffs</u>	<u>kWh Consumed</u>	<u>Total amount payable</u>
0-350 kWh	135.563	350	474.47
350-600 kWh	157.250	250	393.13
600-900 kWh	173.967	300	521.90
900+ kWh	173.967	100	173.97
		<b>1,000</b>	<b>R 1,563.46</b>

R 1.56

<u>NMBM</u>	<u>2018/19 Approved tariffs</u>	<u>kWh Consumed</u>	<u>Total amount payable</u>
0-350 kWh	175.554	350	614.44
351-600 kWh	203.639	250	509.10
601-900 kWh	225.287	300	675.86
901+ kWh	225.287	100	225.29
		<b>1,000</b>	<b>R 2,024.69</b>

R 2.02

# ATTP Domestic Tariffs

## COMPARISON from 2017/18 to 2018/19 (29.5% municipal increase is assumed)

<u>NMBM</u>	<u>2017/18 Approved tariffs</u>	<u>kWh Consumed</u>	<u>Total amount payable</u>
0 - 75 kWh	Free	75	-
76 - 350 kWh	94.990	275	261.22
351 - 600 kWh	157.250	250	393.13
601 - 900 kWh	173.970	100	173.97
		<b>700</b>	<b>R 828.32</b>

**R 1.18**

<u>NMBM</u>	<u>2018/19 Approved tariffs</u>	<u>kWh Consumed</u>	<u>Total amount payable</u>
0 - 75 kWh	Free	75	-
76 - 350 kWh	123.012	275	338.28
351 - 600 kWh	203.639	250	509.10
601 - 900 kWh	225.291	100	225.29
		<b>700</b>	<b>R 1,072.67</b>

**R 1.53**

## EFFECT ON DOMESTIC HOUSEHOLDS

- Currently it costs normal domestic households R1,563.46 to purchase 1 000 kilowatts of electricity. However, if the 29,5% is transferred directly to consumers it would increase the average domestic cost for the same number of units to R2,024.69.
- It currently costs domestic households registered under the NMBM Assistance to the Poor (ATTP) Programme R828.32 to purchase 700 kilowatts of electricity. However, if the 29,5% is transferred directly to consumers it would increase the average cost for the same number of units to R1,072.67.

# WHAT WILL BE THE PICTURE OF THE INDUSTRIAL (T.O.U) TARIFFS

	<b>NMBM (2017/18)</b>	<b>29.50% (2018/19)</b>		
<b><u>Winter</u></b>				
Monthly Basic Charge	2,724.37	3,528.07		
Network Access Charge per kVA	-	-		
Demand Charge per kVA	104.00	134.69		
Energy : Peak	3.24	4.19		
Energy : Standard	1.04	1.34		
Energy : Off-Peak	0.60	0.78		
<b><u>Summer</u></b>				
Monthly Basic Charge	2,546.15	3,297.26		
Network Access Charge (R/kVA)	-	-		
Demand Charge per kVA	104.00	134.69		
Energy : Peak	1.111	1.439		
Energy : Standard	0.765	0.990		
Energy : Off-Peak	0.533	0.690		
			<b><u>NMBM (2017/18)</u></b>	<b><u>29.50% (2018/19)</u></b>
<b><u>Winter</u></b>				
Monthly Basic Charge	Nr of Months	3	8,173.12	10,584.20
Network Access Charge per	kVA	13,145	-	-
Demand Charge per kVA	kVA	13,145	1,367,102.52	1,770,397.77
Energy : Peak	kWh	159,785	517,041.89	669,569.25
Energy : Standard	kWh	2,297,600	2,386,241.41	3,090,182.62
Energy : Off-Peak	kWh	2,846,339	1,714,065.04	2,219,714.23
<b><u>Summer</u></b>				
Monthly Basic Charge	Nr of Months	9	22,915.34	29,675.36
Network Access Charge (R/kVA)	kVA	39,042	-	-
Demand Charge per kVA	kVA	39,042	4,060,571.18	5,258,439.68
Energy : Peak	kWh	5,590,718	6,213,858.87	8,046,947.24
Energy : Standard	kWh	5,234,308	4,001,733.15	5,182,244.43
Energy : Off-Peak	kWh	13,239,550	7,051,384.36	9,131,542.74
			<b>27,343,086.89</b>	<b>35,409,297.52</b>

## EFFECT ON INDUSTRIAL BUSINESS

- The industrial business tariff has been according to the electricity pricing policy all supplies above 1 MVA must be put on a time of use tariff. In moving to align itself with the pricing policy the municipality has decided to make this tariff more attractive in the 2017/18 financial to lure more industrial businesses to the metropolitan area (a business strategy).
- The exercise above has been taken from one of the motor-vehicle components manufacturing company profile. Using the current financial year (2017/18) tariffs their usage of electricity costs them R27,343,086.89 on average, however, if the 29,5% is transferred directly to consumers it will cost them an average of R35,409,297.52 in the 2018/19 financial year.
- The municipality had, in agreement with NERSA, started to relook its Industrial time of use tariffs with the intention of ensuring that the NERSA guideline of Eskom plus 20% is met in the medium term.
- The increase of 29,5% on Eskom Tariff is a step backwards to this planned process.



## CONCLUSION

- In terms of the NMBM's Multi Year Budget Strategy an increase of 8.3% year-on-year for electricity tariffs has been projected, taking into account the economic position around the global economy. We propose that the Eskom price increase be restricted along these lines.
- There is no doubt that the past 5 years had serious economic challenges, at all levels, however, there are still significant investments that were made into the NMBM economy.
- The level of new investments in the region will reduce drastically if conditions of doing business in the city are worsened through unaffordable electricity price increases.

## CONCLUSION

- From an organised business perspective, the municipality working with prominent business champions such as NMBM Business Chamber will continue to lobby on behalf of the region to create an enabling environment for business to thrive and enabling creation of jobs.
- Furthermore the NMBM in determining its electricity tariffs has committed into ensuring that the following were taken into consideration:
  - The current economic climate and the need for industrial growth and stability;
  - The need to attract new companies to ensure job creation;
  - Prevention of job losses;
  - The need to strengthen the fight against electricity theft; and
  - The need to ensure that municipality raises enough revenue to continue with provision of services to the residents.

## **CONCLUSION**

**The Metro's plans to achieve a well-run, opportunity city will be placed in serious jeopardy in the event that the proposed 29.5% increase for 2018/19 is approved.**

**NOT ON OUR WATCH**

# BAIE DANKIE / ENKOSI KAKHULU / THANK YOU...

