

Eskom MYPD 3 RCA Yr 5 Application 2017/2018

Public Hearing, 17 January 2019, ICC, Durban



Introduction

- ▶ Third largest chamber in South Africa
- ▶ Representing 800+ members of all sizes and across all sectors
- ▶ Representative and unified organisation - amalgamation of 3 organisations in 2002 - Pietermaritzburg Chamber of Commerce & Industry; Midlands Black Business Chamber and the Pietermaritzburg Sakekamer
- ▶ Significant manufacturing in and around the city



Revenue Variance: Lower Sales Volumes: Downturn in the Economy & Commodity Price Changes

- The downturn in the economy and commodity price changes did undoubtedly contribute. There is a strong correlation between GDP growth and electricity sales in South Africa (1% increase in GDP → 1% rise in electricity demand - Deloitte, 2017). But high tariffs are negatively impacting growth and exacerbating the situation. As is load shedding. Mining and industry are power intensive. High electricity tariffs added significantly to the cost pressures that led to closures. To a degree, this is self-inflicted. One can't simply adjust for lost revenue during load shedding. Higher tariffs are self-defeating.

Revenue Variance: Lower Sales Volumes: Lower Investor Confidence

- ▶ High tariffs, poor management of SOE's and reports of corruption erode investor confidence - some responsibility must be born by Eskom

Revenue Variance: Lower Sales Volumes: Decrease in Reliance on Eskom

- Drop in sales volumes: A lot of this was self-inflicted by unreasonable price hikes and load-shedding - businesses have invested in alternative energy like solar plants to ensure security of supply and to mitigate costs.

The price elasticity of electricity demand was considered fairly inelastic when price hikes were reasonable, but when the price of electricity (in real terms) started to rise sharply post 2007, price elasticity of demand was significant and negative: 1% increase in price → between 0.2% and 0.5% decrease in electricity demand - Deloitte, 2017.

Eskom's actions have significantly contributed to the decreased demand and the more they put unrealistic tariff increases in place, the fewer customers Eskom will have in the future.

Recovery of Fixed Costs: Debt & Interest Repayment

- ▶ Debt has grown to R419 billion and we are servicing long-term capital requirements with short-term loans.
- ▶ The debt levels are reckless and irresponsible and I don't think that they can all be operationally justified. With all the reports of inefficiency, maladministration and corruption, who is to say what percentage of these debts have been prudently incurred and properly structured? This need to be interrogated before there is any recovery.

Recovery of Key Fixed and Variable Costs: Primary Energy Costs & IPP Contracts

- ▶ Coal procurement practices are questionable - reports of emergency procurement (bypassing tender regulations); paying inflated prices; the eroding of stockpiles; supply issues; quality of supply issues; incurring unnecessary transport costs etc.
- ▶ A forensic investigation needs to be undertaken to interrogate these costs and associated contracts to determine what percentage of the costs have been prudently and efficiently incurred and only these should be permitted.
- ▶ The IPP contracts that are on a take-or-pay basis need to be interrogated for prudence. It makes no sense to buy in energy at a higher price than you can produce it at when you have the capacity. To be forced to pay an inflated price for energy that we don't need just because it is available is not efficient or prudent and should be disallowed in totality. It's irrational - why should we fund it? Having a contract shouldn't justify it - why do we have the contract?

Conclusion

- ▶ I don't think that Eskom should be permitted to recover anything until there has been a full forensic investigation that clearly ascertains what portion of the amounts being claimed through the clearing account process have been prudently and efficiently incurred. The Private sector cannot afford to fund inefficiency, maladministration and/or corruption, and it shouldn't be expected to.
- ▶ If this burden is imposed on us, I can assure you, jobs will be lost.
- ▶ If this is permitted, then we're knowingly contributing to the destruction of Eskom and our economy and negatively affecting the lives of every South African now and into the future. We can't afford to bail Eskom out in the short term at the expense of future South Africa.