Comments on Eskom's revenue application for 2018/19

Project 90 by 2030
We are an environmental organisation that aims to inspire and mobilise a low carbon generation.

We work with individuals, organisations, and decision makers to identify actions that can reduce their impact on the environment.
Content

We have just picked a few *fundamental concerns* to deal with.

This is not an exhaustive critique
Understanding impact to low-income households

• Analysing electricity meter data for 2 types households (Hillview 2 & Nyanga)
• Understanding the buying patterns of these two households
## Household Profiles

<table>
<thead>
<tr>
<th></th>
<th>Hillview 2</th>
<th>Nyanga</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type dwelling</td>
<td>Zinc &amp; Wood</td>
<td>Formal RDP house</td>
</tr>
<tr>
<td>Bedrooms</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>No. of people living in the house?</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>How many people are employed?</td>
<td>2 people earing R2000 collectively</td>
<td>None, pensioner</td>
</tr>
<tr>
<td>How many people are at home during the day?</td>
<td>6 (3 Adults; 3 Kids)</td>
<td>5 Adults</td>
</tr>
<tr>
<td>How many hours do they spend?</td>
<td>10 hours</td>
<td>10 hours</td>
</tr>
<tr>
<td>Are there people on social grant?</td>
<td>Yes, one grandchild</td>
<td>Yes, three recipients</td>
</tr>
<tr>
<td>What electricity services do you use the most?</td>
<td>Kettle; TV; Microwave; Fridge</td>
<td>Kettle (2/prsn in winter); Fridge; hotplate; iron; TV</td>
</tr>
</tbody>
</table>
Observations:

• Between Jan 2017 – 23 October 2017:

<table>
<thead>
<tr>
<th></th>
<th>Nyanga</th>
<th>Cumulative (R)</th>
<th>Hillview2</th>
<th>Cumulative (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>22</td>
<td>1100</td>
<td>35</td>
<td>1750</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>180</td>
<td>4</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>158</td>
<td>1580</td>
<td>30</td>
<td>300</td>
</tr>
<tr>
<td>SUM TOTAL SPEND</td>
<td>2860</td>
<td></td>
<td>2170</td>
<td></td>
</tr>
</tbody>
</table>

Most common purchases
Observations:

- Number of units received per Rand denomination:

<table>
<thead>
<tr>
<th></th>
<th>June 2016</th>
<th>July 2016</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>45,2 kWh</td>
<td>43 kWh</td>
<td>(4%)</td>
<td></td>
</tr>
<tr>
<td>18,1 kWh</td>
<td>17,2 kWh</td>
<td>(4%)</td>
<td></td>
</tr>
<tr>
<td>9,1 kWh</td>
<td>8,6 kWh</td>
<td>(5,5%)</td>
<td></td>
</tr>
</tbody>
</table>

- 2016/17 CoCT Tariff increased 7,78%
Suggestion: MYPD

1. Revision of the application process to:
   “To ensure reasonable tariff stability and smoothed changes over time consistent with the socio-economic objective of the Government”

2. Consider implementing a “price lock” for low energy users (350kWh-450kWh per month on annual average)
Problem 1: Sales volume rebasing

The concept of ‘sales volume rebasing’ with retrospective financial compensation is irrational in current energy landscape.
Tariff increases at 6 times inflation between 2007 and 2015.
On p. 30:

“Over the entire MYPD3 period Eskom’s sales volumes have been significantly lower than the assumption made in the MYPD3 decision. / The net impact of this sales volume rebasing is a 9.4% price increase being required.”
FIGURE 14: FACTORS IMPACTING ON PRICE INCREASE

- Sales volumes rebasing: 9.4%
- IPPs: 5.5%
- International Purchases: 1.4%
- Adjustments: 16.3%
- Operating costs: 23.8%
- Generation Own PE costs: 7.0%
- Price before Operating costs changes: 0.5%
- Price after Operating: -6.0%
- Depr, Returns, SPAs & Exports: 2.1%

Overall Price Increase: 19.9%
So before any other price increases are considered

an **above inflation** increase is already built in

simply because South Africans bought less electricity over a 5 year period that was assumed would happen back in 2013.
5 year historical trend

FIGURE 19: ESKOM SALES VOLUME GAP OVER MYPD3

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sales</th>
<th>Volumes GWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>210,000</td>
<td>190,000</td>
</tr>
<tr>
<td>2014/15</td>
<td>220,000</td>
<td>200,000</td>
</tr>
<tr>
<td>2015/16</td>
<td>230,000</td>
<td>210,000</td>
</tr>
<tr>
<td>2016/17</td>
<td>240,000</td>
<td>220,000</td>
</tr>
<tr>
<td>2017/18</td>
<td>250,000</td>
<td>230,000</td>
</tr>
<tr>
<td>2018/19</td>
<td></td>
<td>240,000</td>
</tr>
</tbody>
</table>

Sales volume rebasing required

Why must we pay for this going forward?
Suggestions:

1. Methodology needs to change.
   - Planning forecasts should be made to manage the electricity infrastructure but **NOT** used to try recoup money in the future.

2. The 9.4% in this application should be removed
Problem 2: Allowed revenue (AR)

Linked to the first problem, this rewards and encourages overestimated energy demand forecasts going forward and contributes to the ‘utility death spiral’.
‘utility death spiral’

Utility puts prices up (above inflation)

Customers go off grid, increase energy efficiency, buy less units from utility, businesses close etc.

Utility makes less revenue

AR
Encourages this cycle
Suggestions:

1. Methodology needs to change.

2. Dedicated resources for focused, forward looking research into a tariff system that will function in a changing energy landscape.
Problem 3: Eskom’s financial situation

Yearly electricity prices increase at more than 3 times inflation are highly unlikely to increase sales and help Eskom’s financial situation.
Ever escalating tariff requests are a sign that something fundamental must change.

This application should be the impetus to really deal with the deep seated issues at Eskom: mismanagement, corruption and a monopoly structure that not longer fits the energy landscape.
Suggestion:

Concerted effort must be made to address the big picture problem at Eskom, not just a band aid solution for this single year price application.
Problem 4: Clarity around IPPs

A 5.5% increase due to IPPs is included, but the details are not – other than that this is R11.2 Bn.
Which bidding windows is this?
How does this relate to unsigned agreements?
How does this relate to RCA?

Suggestion:

Exclude until full information available.
Problem 5: International purchase differences

A 1.4% increase due “to NERSA correction for treatment of international purchases”. 
Figure 14: Factors Impacting on Price Increase

- Sales volumes rebasing: 9.4%
- IPPs: 5.5%
- International Purchases: 1.4%
- Price before Operating costs changes: 16.3%
- Opex: 7.0%
- Generation Own PE costs: 0.5%
- Price after Operating: 23.8%
- Depr, Returns, SPAs & Exports: -6.0%
- Overall Price Increase: 19.9%
“In the MYPD3 decision, NERSA had included a net cost for international purchases and not the gross costs.”

But like the rebasing problem, why change price in future based on expected values (net or gross) from the past?
Problem 6: Stance on renewable energy on p. 113:
“current estimate of the required tariff is based on the assumption that **Eskom will not purchase any additional renewable energy capacity from IPPs** (beyond that which is has already committed to)”
If this is an indication that there are plans to halt the large scale renewable energy program, then this is an urgent issue NERSA must address.

This is incredibly short sighted, and is not acceptable on climate change, environmental, social and economic terms.
OVERALL CONCLUSION

The current process promotes a cycle of ever increasing price hikes that does not address the fundamental issue:

structure and role of Eskom needs to change to fit a changing energy landscape.
Thank you

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